



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
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DAVID E. JANSSEN
Chief Administrative Officer

September 12, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

Dear Supervisors:

**MEDICAL, DENTAL, LIFE INSURANCE AND
DISABILITY PLANS FOR 2007
(3 VOTES)**

**JOINT RECOMMENDATION WITH DIRECTOR OF PERSONNEL THAT YOUR
BOARD:**

1. Approve proposed premium rates for County sponsored plans as follows: (a) medical and dental rates for represented employees for the period January 1, 2007 through December 31, 2007, as shown in Exhibit I; (b) medical and dental rates for non-represented employees for the period January 1, 2007 through December 31, 2007, as shown in Exhibit II; (c) optional term life insurance rates for represented employees and supplemental Group Variable Universal Life (GVUL) insurance rates for non-represented employees, as shown in Exhibit III; and (d) rates for Short-Term Disability (STD), Long-Term Disability (LTD), and LTD Health Insurance plan, as shown in Exhibit IV.
2. Instruct County Counsel to review and approve as to form the appropriate agreements with Blue Cross of California and Blue Cross Life and Health Insurance Company (Blue Cross), Connecticut General Life Insurance Company and CIGNA Healthcare of California, Inc. (CIGNA), Kaiser Foundation Health Plan, Inc. (Kaiser), PacifiCare of California and PacifiCare Life & Health (PacifiCare), Delta Dental Plan (Delta Dental), SafeGuard Health Plans, Inc. (SafeGuard), Life Insurance of North America (LINA), Metropolitan Life Insurance Company (MetLife) and their successors or affiliates, as necessary, for the period January 1, 2007 through December 31, 2007, and instruct the Mayor to sign such agreements.

3. Approve proposed premium rates and benefit coverage changes for the following union sponsored plans, as shown in Exhibit V, for the period from January 1, 2007 through December 31, 2007: The Association for Los Angeles Deputy Sheriffs, Inc. (ALADS) but not including extension of coverage to Unit 701 (Probation Officers), the California Association of Professional Employees (CAPE), and the Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan.
4. Approve an adjustment in the minimum County contribution under the MegaFlex and Flexible Benefit Plans from \$852 and \$626 per month, respectively, to \$918 and \$678 per month, respectively, to be initially reflected on the January 15, 2007 pay warrants.
5. Instruct the Auditor-Controller to make all payroll system changes necessary to implement the changes recommended herein to ensure that all changes in premium rates are first reflected on pay warrants issued on January 15, 2007.
6. Adopt the accompanying ordinance amending Title 5 of the Los Angeles County Code to implement the recommended changes.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS

Purpose

The County maintains employee health, dental, group life and other insurance programs to provide benefits that promote the effectiveness, health and welfare of its workforce. The current agreements for all County and union sponsored medical and dental insurance plans end on December 31, 2006. The purpose of the recommendations contained herein is to implement negotiated agreements with carriers that provide the necessary premiums to continue existing benefits and adopt benefit changes during the 2007 calendar year.

Justification

Overall Premium Negotiation Process and Results

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County Sponsored Plans in General. The recommendations in Exhibits I, II, III and IV regarding the County sponsored plans are the result of intensive negotiations between the health, dental, and life insurance carriers and the County negotiating team consisting of representatives of the Chief Administrative Office (CAO), Director of Personnel (DHR), and the County's group insurance consultant, Mercer Human Resource Consulting (Mercer). For County sponsored plans whose benefits are governed by Fringe Benefit Memoranda of Understanding (MOUs) with SEIU Local 660 and the Coalition of County Unions (CCU), the unions' own benefit consultants have had input into the insurance carrier negotiation process. Mercer's opinion is that with the sole exception of Kaiser, the County sponsored plan carriers' final negotiated rates and offered terms are justified. Mercer's opinion and the supporting due diligence is documented in Attachments A and B.

In general, County health (medical and dental) plans are rated by carriers based on the cost of claims, claims trend and administration costs, taking into account the health risk of, and the utilization of health care by, County employees and their covered dependents. In 2006, an ongoing pattern of increases in hospital and pharmaceutical costs continued to drive medical insurance costs upwards at a rate estimated by Mercer at 9.9% nationally.

The medical plan rates recommended in this letter, averaging 9.4%, are slightly lower than the national average. Underlying dental trend is more moderate. Life insurance is almost entirely claim experience driven, so rates for some County life insurance programs are decreasing while others are increasing.

County Approved Union Sponsored Plans in General. The premium and benefit recommendations in Exhibit V regarding County approved union sponsored health plans were negotiated by the sponsoring unions and evaluated by the CAO and Director of Personnel pursuant to the relevant provisions of The Coalition Fringe MOU and County Code. The joint CAO and Director of Personnel recommendations are provided later in this report.

Renewal Policy and Process. In accordance with the Board of Supervisors' policy, the County negotiating team requires all carriers to justify rates fully and support proposed contract terms for the upcoming plan year. The rate renewal process for 2007 (documented in the addenda to Attachments A and B) is designed to encourage full involvement and transparency among all County, union and carrier stakeholders. The process involves production of data by carriers as needed, identification, in depth analysis and evaluation of all material underwriting issues in carrier proposals and documentation of due diligence and financial results. With the exception of Kaiser, all parties fully complied with the process. Kaiser changed its rating methodology for 2007

renewals, and consequently was not able to provide essential documentation required by the County team to justify Kaiser's rates.

Overall Results. Attachment C is a high level summary of carrier negotiation results that compares the estimated actual total premiums from initial carrier premium quotes for 2007 with the final result after performance guarantee review, challenges to carrier underwriting, benefit changes, and negotiation. Summary reasons for the negotiated reductions are given. Negotiated savings from initial 2007 carrier proposals and performance guarantee credits are estimated to be \$13.1 million, while net savings due to restructuring of optional life insurance and other benefit changes is \$5.5 million, a total savings of \$18.6 million. Attachment C also shows the percentage increase for each carrier by cafeteria plan as well as the total increase for County sponsored health, dental, and life insurance plans. The increase in medical plan premiums estimated to be paid to health carriers during 2007 will range from 2.7% to 15% for an average of 9.4%, which is comparable to expected average national increases of 9.9%. The overall increase for Dental plans will be 4.5%. Life insurance was reduced 18.4%. 2007 premiums to be paid to health, dental and life insurance plan carriers are estimated to be \$630.4 million for County sponsored plans and \$107.8 million for union sponsored plans, a total of \$738.2 million for all plans.

2007 Premium Rates Recommended for Adoption

Recommended Rates. County and union sponsored health, dental, and other insurance rates recommended for adoption are shown in Exhibits I through V. Unless otherwise noted in this letter, the rates support existing benefits enabled by the applicable Fringe MOU, or County Code provision. The rates shown in these Exhibits are the monthly prices that employees will pay from County cafeteria plan contributions or their own resources after County subsidies are subtracted from negotiated contract premium rates paid to carriers. For this reason, percentage increases in premium rates to be charged to employees as shown in the Exhibits in many cases may differ from the negotiated increases in premium to be paid to carriers as reported in the body of this letter and in Attachment C.

Union Concurrence. SEIU Local 660 and management representatives have voted in the Labor-Management Benefit Administrative Committee (BAC) to recommend the premium rates for employees represented by Local 660. While BAC supports reengaging Kaiser for 2007, BAC does not endorse the Kaiser rates because Kaiser has not provided the documentation necessary for both the County consultant, Mercer, or the Local 660 consultant, Rael & Letson, to evaluate and justify the proposed rates.

The Coalitions of County Unions' position is set forth in full in the enclosed letter (Attachment D) from the Coalition Chair and EBAC labor Vice Chair, Mr. Meek, to the EBAC Management Chair.

Implementation of Strategic Plan Goals

The recommended actions are consistent with the principles of the Countywide Strategic Plan by promoting the well being of County employees and their families by offering comprehensive employee benefits.

FISCAL IMPACT/FINANCING

Each cafeteria plan, including represented employee plans provided by MOUs with County unions, provides for a County contribution and in some cases an additional subsidy to help pay the cost of insurance benefits. The current County contributions and applicable subsidies for employee benefits mentioned herein, or changed contributions, or subsidies recommended herein are included in the Fiscal Year 2006-2007 Budget. Employees pay for additional costs above and beyond the County contributions and subsidies through payroll deduction.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The general facts concerning 2007 premium rate and benefit adjustments for County sponsored plans affecting both represented and non-represented employees are provided in this section. The details of each carrier's County sponsored medical, dental, and life insurance plan proposal, Mercer's evaluation and Mercer's opinion concerning their justification and term of offer are given in Attachments A and B. Unless otherwise specified, the term of offer is one year.

Represented Employees

Medical Plan Changes Affecting Represented Employees

Kaiser Rates for 2007:

Based on Kaiser's last best offer, Kaiser's 2007 rates will increase by 11.3% for the Local 660 plan, and 15% for the CCU Plan. The difference in the year-to-year plan increases and lower total carrier rates favoring Local 660 in 2007 are entirely due to plan design difference, and a 2% load which Kaiser will levy on the CCU plan to adjust for the effect of declining membership.

Mercer has not been able to determine if Kaiser's rates are justified because Kaiser has not submitted information requested by Mercer needed to understand, evaluate, and support Kaiser's rate development for 2007. Mercer's opinion on Kaiser's proposed rates is included in Attachment A. To provide continuity in the health care received by more than 90,000 County employees and dependents receiving services from Kaiser, we recommend that your Board approve the 2007 rates proposed by Kaiser in its last best offer.

CIGNA Rates for 2007:

CIGNA provides three different plans to employees represented by the CCU: An HMO, a point of service plan (POS), and a preferred provider plan (PPO). The 2007 negotiated contract rates for all CIGNA plans will increase to 5.7% (2.7% after excessive reserves in the CIGNA Plan Stabilization Reserve [PSR] are applied to premium). While CIGNA offered to eliminate the PPO, a plan which has become prohibitively expensive and depopulated because of a death spiral due to adverse selection, the CIGNA PPO offering is protected by the CCU fringe MOU and cannot be eliminated pending the results of collective bargaining. To provide affordable rates to the PPO plan, CIGNA will continue to blend the rates between HMO, POS, and PPO plans. Mercer's opinion certifying CIGNA's rates as justified and supporting a transfer of excessive reserves from the PSR to reduce premium is included in Attachment A.

PacifiCare Rates for 2007:

PacifiCare provides two fully insured plans to employees represented by SEIU Local 660: An HMO and a preferred provider plan (PPO). The negotiated contract premium rates for the HMO plan will increase 6.3% and the PPO plan will increase 12.5%. However, the negotiation of the 2007 rates left a significant issue unresolved, which should be addressed before the 2008 renewals. For the past several years, PacifiCare has ended the year with reserves containing significant surpluses that are not shared with the County. To deal with this issue, PacifiCare has offered to examine alternate funding arrangements for the 2008 renewal. A change of PacifiCare's reserving practices will require approval by the appropriate regulatory agencies before it can be implemented. Mercer's opinion certifying PacifiCare's 2007 rates and examining the surplus issue is included in Attachment A.

Union Sponsored Plan Benefit Changes and Rates for 2007:

Premiums for County approved union sponsored plans will also increase for 2007. The estimated increase in premiums paid to carriers in 2007 on behalf of the union sponsored plans is \$7.2 million. Proposed 2007 premium increases to be paid to

carriers and benefit changes for the ALADS, CAPE and Local 1014 Fire Fighters Plans are summarized below:

Summary of Union Sponsored Plan Changes for 2007

<u>Union Sponsor</u>	<u>Average Increase in Rates to be Paid to Carrier on Behalf of Plan Sponsor</u>	<u>Requested Benefit Changes</u>
CAPE	5.7%	Add wellness incentive program to CAPE plans
ALADS	8.3%	Cover Unit 701 (Probation Officers)
1014	7.1%	Adjust annual wellness exam benefit from \$250 to \$550 Eliminate deductible for well baby exams up to 2 years old Allow immunizations without copay or deductible to age 19 Cover flu shots for participants 60 and over Cover cancer screenings with no copay or deductible Provide 12 months of Viagra following prostate surgery Increase hospice benefits to \$20,000 Increase in-network maximum to \$1,000 per person or family Increase out-of-network maximum to \$1,500 per person or family

The subsidized rates to be paid by members of union sponsored plans are summarized in Exhibit V, while the carrier changes upon which the 2007 rates are based are documented in the union request letters attached to Exhibit V. We have reviewed the changes for CAPE and 1014 and support them. While we support the premium increase for the ALADS plans, we do not recommend that ALADS coverage be extended to Unit 701 (Probation Officers) because this would further fracture the County risk pool and likely lead to higher future premiums for employees in County sponsored plans due to adverse selection. Moreover, this is an issue which ALADS should address in bargaining.

Dental Plan Changes Affecting Represented Employees

The recommended employee contribution rates for County sponsored represented employee dental plans are summarized in Exhibit I. The employee contribution rates shown for the Delta Dental indemnity plan are Delta's proposed rates for 2007 less current County subsidies negotiated with our unions and adopted by your Board. Since subsidies can affect year-to-year differences, the percentage rate differences, shown in Exhibit I differ from those described in this section. The rates for prepaid dental plans (DeltaCare and SafeGuard) are the rates negotiated with the carriers. As indicated in

Attachment A, Mercer has certified as justified the proposed rates and term of offer summarized below.

Delta Dental has offered a two-year rate guarantee for its indemnity plan for the period from January 1, 2007 to December 31, 2008. The two-year offer for the Local 660 plan provides a 7.6% increase and the CCU plan a 1.3% increase. The difference between Local 660 and CCU rates and rate increases are due to plan design and employee utilization differences.

For the prepaid dental plans, the rates for DeltaCare are guaranteed for two years through December 31, 2008. For both unions, the DeltaCare rates for 2007 will increase 4.5% over 2006. SafeGuard will guarantee a 0.4% increase through December 31, 2007.

Life Insurance and Disability Programs for Represented Employees

Life Insurance Rates

Life insurance rates are driven primarily by past loss experience. Accordingly, in 2007, rates for some insurance types will increase while others decline. Depending on retirement plan membership, the County provides a County paid basic group term life insurance benefit of \$2,000 or \$10,000 to represented employees and to non-represented employees participating in the Flexible Benefit Plan. The basic group term life rate for 2007 will increase 19.6% over 2006 based on past loss experience. Commencing in 2007, CIGNA Life insurance will be the provider of optional term life insurance for represented employees only. CIGNA has offered a three-year rate guarantee for optional term life at 14.7% below 2006 rates for the period extending from January 1, 2007 through December 31, 2009. CIGNA has also offered 2007 rates for dependent life at reduced rates and personal accident coverage (AD&D) at higher rates than 2006. In its opinion (Attachment A), Mercer states that these adjustments and term of offer are justified and provides supporting documentation.

Non-Represented Employees

Medical Plan Changes Affecting Non-Represented Employees

Health Plan Rates

Non-represented employees who participate in the Flexible Benefit and the MegaFlex Plans have a choice between Kaiser and four Blue Cross health plans, which include an HMO, POS, PPO, and a Catastrophic Plan. For 2007, the negotiated contract rates for Kaiser will increase 3.6%, while the average increase in contract rates for the Blue

Cross HMO and Blue Cross indemnity plans (POS, PPO, and Catastrophic) will be 6.4%. Mercer has reviewed the proposed increases and given its opinion concerning their justification in Attachment B.

We recommend that the Board continue the historical County practice of funding any difference between the negotiated contract cost of these plans and the contribution paid by the employees. The recommended employee contribution rates are summarized in Exhibit II.

Medical Plan Benefit Changes

The medical plan rates for non-represented employees described above include adjustments for the following benefit changes:

1. Increase prescription drug copayments from \$10 generic/\$15 brand name to \$10 generic/\$20 brand name.
2. Adjust pediatric office copays to \$0 for both well and sick children to age 5.
3. Adjust frequency of frame and lens replacement from 24 months to 12 months under the Vision Care benefit provided in the Blue Cross HMO, POS, and PPO plans.

Dental Plan Changes Affecting Non-Represented Employees

Dental Plan Rates

The recommended employee contribution rates for non-represented employee dental plans are summarized in Exhibit II. The rates for prepaid dental plans (DeltaCare and SafeGuard) are the rates quoted by the carriers. Rates for the indemnity dental plan, Delta Dental, have been reduced by the 2006 County subsidies. Past practice has been to give comparable treatment to the indemnity dental insurance premium rates charged to non-represented employees as those charged comparably rated represented employees, and we recommended that your Board continue that practice by adopting the Delta Dental rates shown in Exhibit II. As indicated in Attachment B, Mercer has certified as justified the proposed rates and terms of offer summarized below.

Delta Dental has offered a two-year rate guarantee for its indemnity plan for the period from January 1, 2007 to December 31, 2008 with a total increase of 1.3%. For the prepaid dental plans, the rates for DeltaCare are guaranteed for two years through December 31, 2008 at an increase of 4.5% over 2006. SafeGuard will guarantee a 0.4% increase through December 31, 2007.

Life Insurance and Disability Programs

Life Insurance Rates

Beginning January 1, 2007, we recommend that the optional group term life insurance program for non-represented employees be replaced with an optional group variable universal life insurance program provided by MetLife. The new MetLife program will provide coverage amounts that mirror the current program, but will use a more permanent form of life insurance. Term insurance effectively stops when County employment ends, but universal life insurance provides an insurance policy that is owned by the employee and that may be kept in force after retirement or other termination from County service. Adoption of this program will reduce the overall cost of premiums for non-represented employees by approximately 25% under a four year rate guarantee offered by MetLife. Details on the premium rates by age bracket are shown in Exhibit III.

The new program will also include a feature whereby employees may elect to make contributions to a "side fund." Side fund money may be invested on a tax favored basis at the direction of the employee into various investment funds offered by MetLife. The cash build-up may be used to pre-fund the costs of continuing this life insurance coverage on a post-County employment basis, or it may be withdrawn or borrowed against at any time for other purposes. Details on this and other aspects of the program will be provided to all subscribers by MetLife. Other differences from the current program include:

1. Under the current program, employees may increase coverage in any given year by up to one times annual salary without submitting evidence of insurability. That is, there are no questions asked regarding an individual's health status. Under the new program, this arrangement will continue, but there will also be an option to increase coverage by more than one times annual salary at any time with evidence of insurability as required by MetLife.
2. Under the current program, Retirement Plan E members who purchase Survivor Income Benefit (SIB) coverage under MegaFlex are precluded from purchasing life insurance in amounts greater than one times annual salary in conjunction with a 50 percent SIB benefit or three times annual salary in conjunction with a 25 percent SIB benefit. Under the new program, these limits will be increased to two times annual salary and four times annual salary, respectively.

This program was obtained through a Request for Proposal (RFP) developed and administered with the assistance of Mercer, the County's independent group insurance consultant. The RFP was released to both insurers and brokers and ultimately led to the selection of MetLife and brokers Peter D. Lizotte of Executive Financial, Inc., and Brian V. Bozajian of Bozajian and Carter. Messrs. Lizotte and Bozajian will jointly serve as the broker of record and will share a commission that represents the standard level of commission on MetLife products. Attachment E contains a letter from Mercer with further details on the terms of the commission payments and a summary of the RFP process. Mercer recommends the County accept the MetLife proposal.

Long Term Disability (LTD) and Short Term Disability (STD) Plans

We recommend changes to the LTD Health Insurance program available to non-represented employees, and survivor income benefits (SIB) available to MegaFlex participants who are members of Retirement Plan E. Under the current LTD Health Insurance plan, an employee can elect to receive health benefits while disabled and on long term leave by paying 25% of the monthly premium, and County paying 75% of the premium. Currently employees pay a monthly fee prospectively for this benefit. For new disabilities on or after January 1, 2007, this benefit at the 75% level will be available on a non-elective basis without the prospective fee to all non-represented employees enrolled in a County sponsored health plan. The plan will provide employees with an option to elect 100% County payment of their monthly health premiums by paying a \$3 per month prospective fee. Beginning in 2007, SIB will be provided through MetLife.

The STD plan is available only to MegaFlex employees. It serves as a substitute for sick leave benefits otherwise available to most other County employees. There will be no change in the cost of STD benefits for 2007.

Changes to the Minimum County Contribution Under the MegaFlex and Flexible Benefit Plans

Non-represented employees covered by MegaFlex and the Flexible Benefit Plan receive a County contribution expressed as a percentage of salary, but not less than a minimum "floor" contribution of \$852 per month under MegaFlex and \$626 per month under the Flexible Benefit Plan. Given that employee costs for health insurance will increase under both plans in 2007, we are recommending that the floor contributions to the MegaFlex and the Flexible Benefit Plan be increased to \$918 and \$678 per month, respectively. These adjustments would be initially reflected on the County pay warrants issued on January 15, 2007.

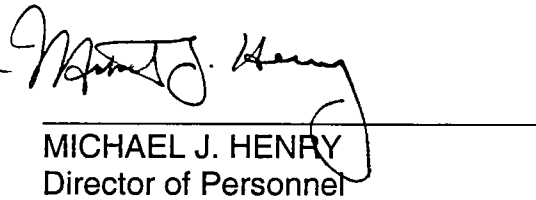
Honorable Board of Supervisors
September 12, 2006
Page 12

The ordinance necessary to implement the recommendations herein has been approved as to form by the County Counsel.

Respectfully submitted,



DAVID E. JANSSEN
Chief Administrative Officer



MICHAEL J. HENRY
Director of Personnel

DEJ:MJH
WGL:FF:MH:df

Attachments (13)

c: Executive Officer, Board of Supervisors
Auditor-Controller
County Counsel
Local 660, SEIU
Coalition of County Unions
Mercer

**COUNTY-SPONSORED
MEDICAL AND DENTAL INSURANCE PLANS
FOR REPRESENTED EMPLOYEES
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

Plan	Option	Coverage Category ^a	Current 2006 Rates ^b	Proposed 2007 Rates ^b	Percentage Change
CIGNA	Network HMO	1	\$ 342.49	\$ 351.74	2.7%
		2	\$ 680.70	\$ 699.23	2.7%
		3	\$ 784.02	\$ 805.34	2.7%
	Network POS	1	\$ 529.41	\$ 543.70	2.7%
		2	\$ 999.14	\$1,026.26	2.7%
		3	\$1,126.72	\$1,157.29	2.7%
	PPO	1	\$ 851.55	\$ 874.54	2.7%
		2	\$1,746.14	\$1,793.43	2.7%
		3	\$1,962.41	\$2,015.54	2.7%
KAISER Choices		1	\$ 369.57	\$ 425.03	15.0%
		2	\$ 733.70	\$ 844.62	15.1%
		3	\$ 851.96	\$ 980.63	15.1%
KAISER Options		1	\$ 346.95	\$ 386.92	11.5%
		2	\$ 696.90	\$ 776.83	11.5%
		3	\$ 807.84	\$ 900.57	11.5%
PACIFICARE	HMO	1	\$ 293.52	\$ 312.39	6.4%
		2	\$ 596.07	\$ 634.19	6.4%
		3	\$ 689.92	\$ 734.08	6.4%
	PPO	1	\$ 697.87	\$ 785.86	12.6%
		2	\$1,413.08	\$1,590.84	12.6%
		3	\$1,636.02	\$1,841.90	12.6 %

^a 1 = Employee only

2 = Employee + 1 Dependent

3 = Employee + 2 or more Dependents

^b Rates reflect current negotiated County subsidies.

**COUNTY-SPONSORED
MEDICAL AND DENTAL INSURANCE PLANS
FOR REPRESENTED EMPLOYEES
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

Plan	Option	Coverage Category ^a	Current 2006 Rates	Proposed 2007 Rates	Percentage Change
DELTA DENTAL ^b Choices		1	\$ 20.57	\$ 21.09	2.5%
		2	\$ 34.31	\$ 35.20	2.6%
		3	\$ 51.26	\$ 52.62	2.6%
DELTA DENTAL ^b Options		1	\$ 27.97	\$ 31.66	13.2%
		2	\$ 46.53	\$ 52.80	13.5%
		3	\$ 69.69	\$ 79.29	13.8%
DELTACARE PMI Choices & Options		1	\$ 13.24	\$ 13.83	4.5%
		2	\$ 21.84	\$ 22.81	4.4%
		3	\$ 32.30	\$ 33.74	4.5%
SAFEGUARD ^c Choices & Options		1	\$ 9.80	\$ 9.83	0.3%
		2	\$ 18.97	\$ 19.04	0.4%
		3	\$ 24.75	\$ 24.85	0.4%

^a 1 = Employee only
2 = Employee + 1 Dependent
3 = Employee + 2 or more Dependents

^b Rates reflect current negotiated County subsidy, and a subsidy from the contract refundable reserve and a performance guarantee credit.

^c SafeGuard rates for 2007 reflect a 0.48% credit adjustment for 2005 performance guarantee penalties.

**COUNTY-SPONSORED
MEDICAL AND DENTAL INSURANCE PLANS
FOR NON-REPRESENTED EMPLOYEES
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

Plan	Option	Coverage Category ^a	Current 2006 Rates ^b	Proposed 2007 Rates ^b	Percentage Change
BLUE CROSS	California Care HMO	1	\$ 194.32	\$ 206.76	6.4%
		2	\$ 380.08	\$ 404.41	6.4%
		3	\$ 398.69	\$ 424.21	6.4%
		4	\$ 450.88	\$ 479.74	6.4%
	PLUS POS	1	\$ 293.63	\$ 312.42	6.4%
		2	\$ 589.55	\$ 627.28	6.4%
		3	\$ 603.39	\$ 642.01	6.4%
		4	\$ 673.04	\$ 716.11	6.4%
	Catastrophic	1	\$ 150.30	\$ 159.92	6.4%
		2	\$ 301.57	\$ 320.87	6.4%
		3	\$ 306.23	\$ 325.83	6.4%
		4	\$ 354.18	\$ 376.85	6.4%
	Prudent Buyer PPO	1	\$ 374.50	\$ 398.47	6.4%
		2	\$ 687.57	\$ 731.57	6.4%
		3	\$ 714.00	\$ 759.70	6.4%
		4	\$ 827.24	\$ 880.18	6.4%
KAISER Flex/MegaFlex		1	\$ 194.32	\$ 206.76	6.4%
		2	\$ 380.08	\$ 404.41	6.4%
		3	\$ 398.69	\$ 424.21	6.4%
		4	\$ 450.88	\$ 479.74	6.4%
DELTA DENTAL ^c Flex & MegaFlex		1	\$ 20.57	\$ 21.10	2.6%
		2	\$ 30.06	\$ 31.04	3.3%
		3	\$ 34.31	\$ 35.25	2.7%
		4	\$ 51.26	\$ 52.68	2.8%
DELTACARE PMI Flex & MegaFlex		1	\$ 13.24	\$ 13.83	4.5%
		2	\$ 22.71	\$ 23.72	4.5%
		3	\$ 22.87	\$ 23.89	4.5%
		4	\$ 32.96	\$ 34.43	4.5%
SAFEGUARD ^d Flex & MegaFlex		1	\$ 9.80	\$ 9.83	0.3%
		2	\$ 18.41	\$ 18.48	0.4%
		3	\$ 20.76	\$ 20.84	0.4%
		4	\$ 27.12	\$ 27.23	0.4%

^a 1 = Employee only

2 = Employee + Child(ren)

3 = Employee + Spouse

4 = Employee + Spouse + Child(ren)

^b Rates, where applicable, are net of County subsidy; except that the premium charged to an employee whose benefits are subject to COBRA and separates from service on or after January 1, 2007 is the carrier quoted rate plus an administrative charge as prescribed by COBRA.

^c Blue Cross rates for 2007 reflect a subsidy from the contract refundable reserve and a performance guarantee credit.

^d SafeGuard rates for 2007 reflect a 0.48% credit adjustment for 2005 performance guarantee penalties.

**LIFE, ACCIDENTAL DEATH AND DISMEMBERMENT
AND SURVIVOR INCOME BENEFIT PROGRAMS
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

	<u>Monthly Cost per \$1000 of Insurance</u>	
	<u>2006</u>	<u>2007</u>
COUNTY-PAID BASIC GROUP TERM LIFE INSURANCE	\$0.23	\$0.275

**OPTIONAL GROUP TERM LIFE INSURANCE
FOR REPRESENTED EMPLOYEES**

Employee:	<u>Age</u>	<u>2006</u>	<u>2007</u>
The monthly premium per \$1000 of insurance is based on employee's age as shown in the following table:	Less than 30	\$0.05	\$0.047
	30-34	\$0.07	\$0.080
	35-39	\$0.10	\$0.090
	40-44	\$0.12	\$0.100
	45-49	\$0.19	\$0.150
	50-54	\$0.30	\$0.230
	55-59	\$0.47	\$0.430
	60-64	\$0.73	\$0.660
	65-69	\$1.07	\$0.942
	70 and over	\$2.06	\$1.813

Dependent Term Life Insurance:

Cost per month per \$5,000 of coverage, no matter how many eligible dependents employee may have. Coverage is offered in increments of \$5,000 up to \$20,000. Dependent care coverage premium is charged to the employee on the same basis as employee coverage premium.

<u>2006</u>	<u>2007</u>
\$1.24	\$1.091

**LIFE, ACCIDENTAL DEATH AND DISMEMBERMENT
AND SURVIVOR INCOME BENEFIT PROGRAMS
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

OPTIONAL ACCIDENTAL DEATH & DISMEMBERMENT INSURANCE – Cost per Month

<u>Employee Coverage</u>	<u>Current 2006 Rates</u>		<u>Proposed 2007 Rates</u>	
	<u>Employee Only Plan G</u>	<u>Employee & Dependents Plan H</u>	<u>Employee Only Plan G</u>	<u>Employee & Dependents Plan H</u>
\$ 10,000	\$0.18	\$0.29	\$0.21	\$ 0.41
\$ 25,000	\$0.45	\$0.73	\$0.52	\$ 1.02
\$ 50,000	\$0.90	\$1.45	\$1.05	\$ 2.05
\$100,000	\$1.80	\$2.90	\$2.10	\$ 4.10
\$150,000	\$2.70	\$4.35	\$3.15	\$ 6.15
\$200,000	\$3.60	\$5.80	\$4.20	\$ 8.20
\$250,000	\$4.50	\$7.25	\$5.25	\$10.25
\$300,000	\$5.40	\$8.70	\$6.30	\$12.30
\$350,000	\$6.30	\$10.15	\$7.35	\$14.35

These figures apply regardless of employee's age. If Plan H is selected, all eligible dependents will be insured automatically.

**LIFE, ACCIDENTAL DEATH AND DISMEMBERMENT
AND SURVIVOR INCOME BENEFIT PROGRAMS
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

**OPTIONAL GROUP VARIABLE UNIVERSAL LIFE INSURANCE
FOR FLEX/MEGAFLEX PARTICIPANTS**

Employee: The monthly premium per \$1,000 of insurance is based on the employee's age as shown in the following table:

<u>Age</u>	<u>2007 Rate*</u>	<u>Age</u>	<u>2007 Rate*</u>
20 - 24	\$0.045	56	\$0.305
25 - 29	\$0.056	57	\$0.338
30 - 34	\$0.065	58	\$0.381
35 - 39	\$0.067	59	\$0.425
40	\$0.078	60	\$0.478
41 - 42	\$0.079	61	\$0.538
43	\$0.088	62	\$0.594
44	\$0.100	63	\$0.639
45	\$0.111	64	\$0.708
46	\$0.121	65	\$0.736
47	\$0.132	66	\$0.826
48	\$0.154	67	\$0.879
49	\$0.164	68	\$0.979
50	\$0.175	69	\$1.088
51	\$0.197	70	\$1.197
52	\$0.207	71	\$1.323
53	\$0.228	72	\$1.469
54	\$0.251	73	\$1.613
55	\$0.284	74	\$1.786

* Employee cost for MegaFlex employees is half of actual premium. The County pays the other 50%.

**LIFE, ACCIDENTAL DEATH AND DISMEMBERMENT
AND SURVIVOR INCOME BENEFIT PROGRAMS
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

Dependent Term Life Insurance for Flex and MegaFlex Participants

Cost per month per \$5,000 of dependent life coverage,
up to \$20,000.

2007 Rate
\$1.24

SURVIVOR INCOME BENEFIT – For MegaFlex participants enrolled in Retirement Plan E

<u>Employee Age</u>	Current 2006 Rates		Proposed 2007 Rates	
	<u>Employee Cost*</u> <u>(25% Option)</u>	<u>Employee Cost*</u> <u>(50% Option)</u>	<u>Employee Cost*</u> <u>(25% Option)</u>	<u>Employee Cost*</u> <u>(50% Option)</u>
Under 30	0.156%	0.300%	0.156%	0.300%
30 to 34	0.192%	0.396%	.0192%	0.396%
35 to 39	0.252%	0.516%	0.252%	0.516%
40 to 44	0.360%	0.708%	0.360%	0.708%
45 to 49	0.480%	0.960%	0.480%	0.960%
50 to 54	0.636%	1.272%	0.636%	1.272%
55 to 59	0.912%	1.836%	0.912%	1.836%
60 to 64	1.248%	2.496%	1.248%	2.496%
65 to 69	1.716%	3.432%	1.716%	3.432%
70 and over	3.048%	6.096%	3.048%	6.096%

*Employee Cost is expressed as a percentage of regular monthly salary and is half of the actual premium. The County pays the other 50%.

**SHORT-TERM DISABILITY, LONG-TERM DISABILITY
AND LONG-TERM DISABILITY HEALTH INSURANCE
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

MEGAFLEX SHORT-TERM DISABILITY PLAN

Employee Cost as a Percentage of Monthly Salary:

Current 2006 Rates			Proposed 2007 Rates		
<u>Income Replacement</u>	<u>Waiting Period</u>	<u>Cost</u>	<u>Income Replacement</u>	<u>Waiting Period</u>	<u>Cost</u>
70%	14 Days	0.000%	70%	14 Days	0.000%
100%*	7 Days	0.934%	100%*	7 Days	0.934%

* Reduced to 80% after 21 days.

MEGAFLEX LONG-TERM DISABILITY PLAN

Employee Cost as a Percentage of Monthly Salary:

Current 2006 Rates			Proposed 2007 Rates	
<u>Income Replacement</u>	<u>Plan E + * Retirement Plan</u>	<u>All Other Plans</u>	<u>Plan E + * Retirement Plan</u>	<u>All Other Plans</u>
40%	0.000%	0.040%	0.000%	0.040%
60%	0.117%	0.157%	0.117%	0.157%

*Plan E plus 5 or more years of continuous service.

**SHORT-TERM DISABILITY, LONG-TERM DISABILITY
AND LONG-TERM DISABILITY HEALTH INSURANCE
CURRENT 2006 RATES AND PROPOSED 2007 RATES**

LONG-TERM DISABILITY HEALTH INSURANCE - Cost per month

For Flex/MegaFlex Participants

Current 2006 Rate

75% Premium Payment

\$4.25

Proposed 2007 Rate

75% Premium Payment

\$0.00

100% Premium Payment

\$3.00

For Represented Employees

Current 2006 Rate

\$4.25

Proposed 2007 Rate

\$4.25

**UNION-SPONSORED
MEDICAL AND DENTAL INSURANCE PLANS
CURRENT 2006 AND PROPOSED 2007 PREMIUM RATES**

Plan	Option	Coverage Category ^a	Current 2006 Rates	Proposed 2007 Rates ^b	Percentage Change
ALADS	Prudent Buyer Plan Under Age 50	1	\$ 483.24	\$ 536.45	11.0%
		2	\$ 938.25	\$1,045.45	11.4%
		3	\$1,077.90	\$1,203.83	11.7%
	Prudent Buyer Plan Age 50 and Over	1	\$ 483.24	\$ 536.45	11.0%
		2	\$ 938.25	\$1,045.45	11.4%
		3	\$1,077.90	\$1,203.83	11.7%
	CaliforniaCare Basic Plan (All Ages)	1	\$ 314.05	\$ 338.73	7.9%
		2	\$ 601.84	\$ 649.98	8.0%
		3	\$ 751.53	\$ 808.27	7.5%
	Prudent Buyer Premier Plan Under Age 50	1	\$ 565.97	\$ 619.18	9.4%
		2	\$1,020.98	\$1,128.18	10.5%
		3	\$1,160.63	\$1,286.56	10.8%
	Prudent Buyer Premier Plan Age 50 and Over	1	\$ 565.97	\$ 619.18	9.4%
		2	\$1,020.98	\$1,128.18	10.5%
		3	\$1,160.63	\$1,286.56	10.8%
	CaliforniaCare Premier Plan (all ages)	1	\$ 396.78	\$ 421.46	6.2%
		2	\$ 684.57	\$ 732.71	7.0%
		3	\$ 834.26	\$ 891.00	6.8%
CAPE	Classic	1	\$ 440.00	\$ 464.00	5.4%
		2	\$ 883.56	\$ 932.56	5.5%
		3	\$ 1,139.56	\$ 1,157.56	1.6%
	Lite	1	\$ 284.00	\$ 299.00	5.3%
		2	\$ 569.56	\$ 600.56	5.4%
		3	\$ 730.56	\$ 770.56	5.5%
	PPO (Out-of-state only)	1	\$ 435.26	\$ 459.17	5.5%
		2	\$ 874.09	\$ 922.42	5.5%
		3	\$ 1,127.24	\$1,189.50	5.5%
FIRE FIGHTERS LOCAL1014		1	\$ 419.00	\$ 446.00	6.4%
		2	\$ 795.56	\$ 847.56	6.5%
		3	\$ 943.56	\$ 1,005.56	6.6%

^a 1 = Employee only

2 = Employee + 1 Dependent

3 = Employee + 2 or more Dependents

^b Rates reflect current negotiated County subsidies

ENCLOSURES TO EXHIBIT V

1. ALADS Request
2. CAPE Request
3. Los Angeles County Fire Fighters Local 1014 request plus addendum

ALADS Insurance Trust

9500 Topanga Canyon Blvd. Chatsworth, CA 91311
Tel (213) 678-0040 (800) 842-6635 Fax (818)678-0030

August 30, 2006

Mr. Michael J. Henry, Director
County of Los Angeles
Hall of Administration, Room 579
500 West Temple Street
Los Angeles, California 90012

Attention: Ms. Marian Hall
Human Resources Manager
Employee Benefits – Deferred Income Division
Department of Human Resources
County of Los Angeles
3333 Wilshire Boulevard, Tenth Floor
Los Angeles, California 90010

RE: ALADS/BLUE CROSS 2007 HEALTHCARE PLAN PREMIUMS
Via U.S. Mail and E-Mail

Dear Ms. Hall:

Following are the monthly premium rates for the ALADS Blue Cross Prudent Buyer and CaliforniaCare medical and dental plans for the 2006 plan year:

Plan	Employee	Employee + 1	Employee + 2
Prudent Buyer Basic	\$536.45	\$1,050.89	\$1,209.27
Prudent Buyer Premier	\$619.18	\$1,133.62	\$1,292.00
CaliforniaCare Basic	\$338.73	\$655.42	\$813.71
CaliforniaCare Premier	\$421.46	\$738.15	\$896.44

Further, the eligibility to participate in the ALADS plans has been extended to the Probation Officer Unit # 701, effective January 1, 2007.

Sincerely,



Bud Treece, Trust Administrator



JUL 31 2006

July 24, 2006

Marian Hall
Human Resources Manager
Employee Benefits-Deferred Income Division
County of Los Angeles
Department of Human Resources
3333 Wilshire Boulevard
Los Angeles, CA 90010

Re: 2007 RENEWAL – CAPE/BLUE SHIELD MEDICAL PLANS

Dear Ms. Hall:

This letter is to advise you of the CAPE Benefit Trust Board of Trustees' approval of the renewal of Blue Shield's contracts for the year 2007 for the CAPE/Blue Shield Classic and Lite medical plans. Attached please find the benefit structures and rates for both plans.

There are no core benefit changes for 2007 other than any mandated regulatory changes. However, we have added a wellness incentive program to both plans, Healthy Lifestyles Rewards, which will pay an incentive reward of up to \$150 annually to members who participate and complete various health improvement programs.

We would appreciate your forwarding the 2007 CAPE Blue Shield medical plans' information to the Board of Supervisors for their timely approval.

Sincerely,

CALIFORNIA ASSOCIATION OF
PROFESSIONAL EMPLOYEES BENEFIT TRUST

John W. Fallon
Chairman
CAPE Benefit Trust Board of Trustees

Attachments

2007 CAPE/Blue Shield Classic Plan*

(800) 487-4002 www.blueshieldca.com

BENEFITS		PRIMARY CARE NETWORK	PRO NETWORK A Point of Service Plan	OUT-OF-NETWORK (Reimbursements Based On Allowable Amount)
Type of Plan	All Participants	All Participants	All Participants	All Participants
Who is Eligible	None	\$300 per person; \$600 per family maximum (combined PPO Network and Out-of-Network)	\$300 per person; \$600 per family maximum (combined PPO Network and Out-of-Network)	\$300 per person; \$600 per family maximum (combined PPO Network and Out-of-Network)
Calendar Year Deductible	None	After deductible, \$4,000/person; \$8,000/family (combined - PPO Network and Out-of-Network)	After deductible, \$4,000/person; \$8,000/family (combined - PPO Network and Out-of-Network)	After deductible, \$6,000/person; \$12,000/family (combined - PPO Network and Out-of-Network)
Maximum Annual Out-of-pocket Expenses	\$2,000/person; \$4,000/family			
Lifetime Maximum Benefit	Unlimited	\$2,000,000	\$2,000,000	\$2,000,000
PREVENTIVE CARE				
Immunizations	100%; no copayment	Not covered	Not covered	Not covered
Periodic Health Exams	100%; no copayment (including Well Woman Exam, Pap Smear, and Mammography)	Routine physicals not covered. Well Woman Exam, 100% after \$20 copayment; tests 90% no deductible	Not covered	Not covered
Vision Care	Up to age 18 screenings only; 100%. All members one eye exam per year - \$10 copayment at MIES providers only	All members one eye exam per year - \$10 copayment at MIES providers only	\$10 Reimbursement for eye exam only	
MEDICALLY NECESSARY CARE				
Ambulance	100% after \$50 copayment	90% after deductible	90% after deductible	90% after deductible
Doctor Office Visits	100% after \$10 copayment	100% after \$20 copayment for consultation only (not subject to deductible)	60% after deductible	60% after deductible
Emergency Room	100% after \$50 copayment (waived if admitted)	100% after \$50 copayment (waived if admitted)	100% after \$50 copayment (waived if admitted)	100% after \$50 copayment (waived if admitted)
Hospital Care	100%; no copayment	90% after deductible	60% after deductible; carrier max payment \$420 per day	60% after deductible; carrier max payment \$420 per day
Maternity	100%; no copayment	100% after \$20 copayment for consultation only (not subject to deductible)	60% after deductible	60% after deductible; outpatient carrier max pmt \$420 per day
Surgery	100%; no copayment (outpatient \$50 copayment)	90% after deductible	60% after deductible	60% after deductible
X-Ray & Lab Tests	100%; no copayment	90% after deductible	60% after deductible	60% after deductible
Prescription Drugs	\$10 (generic), \$15 (brand name), \$30 (nonformulary-requires preapproval); Mail Order: 90-day Supply: \$20 (generic), \$30 (brand name), \$60 (nonformulary-requires preapproval)	\$10 (generic), \$15 (brand name), \$30 (nonformulary-requires preapproval); Mail Order: 90-day Supply: \$20 (generic), \$30 (brand name), \$60 (nonformulary-requires preapproval)	Covered for emergencies only: 75% of lesser of actual price or reasonable charge, minus copayment	
MENTAL HEALTH CARE				
Mental Health-Outpatient	Non-severe psychiatric care: \$10 copayment for initial visit; \$50 copayment/visit thereafter (up to 20 combined visits per calendar year)	Non-severe psychiatric care: \$10 copayment for initial visit; \$50 copayment/visit thereafter (up to 20 combined visits per calendar year)	Non-severe psychiatric care: 50% after deductible (up to 20 combined visits per calendar year)	Non-severe psychiatric care: 50% after deductible (up to 20 combined visits per calendar year)
	Severe mental illness: \$10 copayment/visit	Severe mental illness: \$10 copayment/visit	Severe mental illness: 60% (after deductible)	Severe mental illness: 60% (after deductible)
	--- Provided by United Behavioral Health. Must be arranged through MHSA ---			
Mental Health-Inpatient	100%	100%	60% (after deductible), up to \$420 carrier max per day	
	--- Provided by United Behavioral Health. Must be arranged through MHSA ---			
OTHER PLAN BENEFITS				
Chiropractic Care	100% after \$10 copayment	100% after \$10 copayment	Not covered	
	--- Includes acupuncture; up to 40 combined visits/calendar year (based on medical necessity) ---			
	--- Provided through American Specialty Health Plans ---			
Home Health Care	100% after \$10 copayment	90% after deductible	60% after deductible	60% after deductible
	(combined 100 visits per calendar year)	(combined 100 visits per calendar year)	(combined 100 visits per calendar year)	(combined 100 visits per calendar year)
Hospice Care	100% when provided by authorized hospice agency	100% when provided by authorized hospice agency	Not covered unless authorized by Blue Shield	Not covered unless authorized by Blue Shield
Physical Therapy	100% after \$10 copayment	90% after deductible	60% after deductible	60% after deductible
Skilled Nursing Facility	100%; no copayment (combined 100 days per calendar year)	90% after deductible (combined 100 days per calendar year)	60% after deductible (combined 100 days per calendar year)	60% after deductible (combined 100 days per calendar year)

*This is a limited benefit summary. Refer to the carrier summary for further details.

In case of discrepancies, the carrier's summary takes precedence.

2007 Premium Rates

Employee Only: \$ 464.00
Employee + One: \$ 938.00
Employee + Family: \$1,163.00

2007 CAPE/Blue Shield Lite Plan *

(800) 487-3092 www.blueshieldca.com

BENEFITS		PRIMARY CARE NETWORK	PRO NETWORK A Point of Service Plan	OUT-OF-NETWORK (Reimbursement Based On Allowable Amount)
Type of Plan	All Participants	All Participants	All Participants	All Participants
Who is Eligible	None	\$500 per person; \$1,000 per family maximum (combined-PRO Network and Out-of-Network)	\$500 per person; \$1,000 per family maximum (combined-PRO Network and Out-of-Network)	\$500 per person; \$1,000 per family maximum (combined-PRO Network and Out-of-Network)
Calendar Year Deductible	None	After deductible: \$4,000/person; \$8,000/family (combined - PRO Network and Out-of-Network)	After deductible: \$4,000/person; \$8,000/family (combined - PRO Network and Out-of-Network)	After deductible: \$6,000/person; \$12,000/family (combined - PRO Network and Out-of-Network)
Maximum Annual Out-of-pocket Expenses	\$2,000/person; \$4,000/family			
Lifetime Maximum Benefit	Unlimited	\$2,000,000	\$2,000,000	\$2,000,000
PREVENTIVE CARE				
Immunizations	100%; no copayment	Not covered	Not covered	Not covered
Periodic Health Exams	100%; no copayment (including Well Woman Exam, Pap Smear, and Mammography)	Routine physicals not covered; Well Woman Exam 100% after \$25 copayment; tests 80% no deductible	Not covered	Not covered
Vision Care	Up to age 18 screenings only; 100%; All members one eye exam per year- \$10 copayment at MBS providers only	All members one eye exam per year- \$10 copayment at MBS providers only	\$10 Reimbursement for eye exam only	
MEDICALLY NECESSARY CARE				
Ambulance	100% after \$30 copayment	80% after deductible	80% after deductible	80% after deductible
Doctor Office Visits	100% after \$10 copayment	100% after \$25 copayment for consultation only (not subject to deductible)	60% after deductible	60% after deductible
Emergency Room	100% after \$50 copayment (waived if admitted)	100% after \$50 copayment (waived if admitted)	100% after \$50 copayment (waived if admitted)	100% after \$50 copayment (waived if admitted)
Hospital Care	100%; no copayment	80% after deductible	60% after deductible	60% after deductible
Maternity	100%; no copayment	100% after \$25 copayment for consultation only (not subject to deductible)	60% after deductible	60% after deductible
Surgery	100% no copayment (outpatient \$75 copayment)	80% after deductible	60% after deductible	60% after deductible
X-Ray & Lab Tests	100%; no copayment	80% after deductible	60% after deductible	60% after deductible
Prescription Drugs	\$10 (generic); \$15 (brand name); \$30 (nonformulary-requires preapproval); Mail-Order: 90-day Supply; \$20 (generic); \$30 (brand name); \$60 (nonformulary-requires preapproval)	\$10 (generic); \$15 (brand name); \$30 (nonformulary-requires preapproval); Mail-Order: 90-day Supply; \$20 (generic); \$30 (brand name); \$60 (nonformulary-requires preapproval)	Reasonable charges, minus copayment	Reasonable charges, minus copayment
MENTAL HEALTH CARE				
Mental Health Outpatient	Non-severe psychiatric care: \$10 copayment for initial visit; \$50 copayment/visit thereafter (up to 20 combined visits per calendar year)	Non-severe psychiatric care: \$10 copayment for initial visit; \$50 copayment/visit thereafter (up to 20 combined visits per calendar year)	Non-severe psychiatric care: 50% after deductible (up to 20 combined visits per calendar year)	Non-severe psychiatric care: 50% after deductible (up to 20 combined visits per calendar year)
	Severe mental illness: \$10 copayment/visit	Severe mental illness: \$10 copayment/visit		Severe mental illness: 60% (after deductible)
	--- Provided by United Behavioral Health. Must be arranged through MHSA ---			
Mental Health-Inpatient	100%	100%	60% (after deductible), up to \$360 carrier max per day	
	--- Provided by United Behavioral Health. Must be arranged through MHSA ---			
OTHER PLAN BENEFITS				
Chiropractic Care	100% after \$15 copayment	100% after \$15 copayment	Not covered	Not covered
	--- Includes acupuncture, up to 30 combined visits/calendar year (based on medical necessity) ---			
	--- Provided through American Specialty Health Plans ---			
Home Health Care	100% after \$10 copayment	80% after deductible	60% after deductible	60% after deductible
	(combined 100 visits per calendar year)	(combined 100 visits per calendar year)	(combined 100 visits per calendar year)	(combined 100 visits per calendar year)
Hospice Care	100% when provided by authorized hospice agency	100% when provided by authorized hospice agency	Not covered unless authorized by Blue Shield	Not covered unless authorized by Blue Shield
Physical Therapy	100% after \$10 copayment	80% after deductible	60% after deductible	60% after deductible
Skilled Nursing Facility	100%; no copayment (combined 100 days per calendar year)	80% after deductible (combined 100 days per calendar year)	60% after deductible (combined 100 days per calendar year)	60% after deductible (combined 100 days per calendar year)

* This is a limited benefit summary. Refer to the carrier's summary for further details.

In case of discrepancies, the carrier's summary takes precedence.

2007 Premium Rates

Employee Only: \$299.00
Employee + One: \$606.00
Employee + Family: \$776.00

**2006 CAPE/Blue Shield
COBRA PPO Plan ***

(800) 487-2092 www.blueshieldca.com

BENEFITS		IN-NETWORK	A Preferred Provider	OUT-OF-NETWORK (Reimbursement Based On Allowable Amount)
Type of Plan		Participants residing outside the State of California	Option Plan	Participants residing outside the State of California
Who is Eligible		\$250 per person, \$500 per family maximum (combined In-Network and Out-of-Network)		\$250 per person, \$500 per family maximum (combined In-Network and Out-of-Network)
Calendar Year Deductible				
Maximum Annual Out-of-pocket Expenses		After deductible, \$3,000/person, \$6,000/family (combined - In-Network and Out-of-Network)		After deductible, \$10,000/person, \$20,000/family (combined - In-Network and Out-of-Network)
Lifetime Maximum Benefit		\$6,000,000		\$6,000,000
PREVENTIVE CARE				
Immunizations		\$25 copayment per visit		Not covered
Periodic Health Exams		\$25 copayment per visit (includes Well Woman/Baby Care)		Not covered
Vision Care				Not covered
MEDICALLY NECESSARY CARE:				
Ambulance		80% after deductible		80% after deductible
Doctor Office Visits		\$25 copayment for consultation only (not subject to deductible)		60% after deductible
Emergency Room		80% after \$50 copayment (waived if admitted)		80% after \$50 copayment (waived if admitted)
Hospital Care		80% after deductible		60% after deductible; carrier max payment \$600 per day
Maternity		100% after \$20 copayment for consultation only (not subject to deductible)		70% after deductible
Surgery		90% after deductible		70% after deductible; outpatient-carrier max pymt \$420 per day
X-Ray & Lab Tests		90% after deductible		70% after deductible
Prescription Drugs		\$10 (generic), \$15 (brand name), \$30 (nonformulary-requires preapproval)		Covered for emergencies only- 75% of lesser of actual price or reasonable charge, minus copayment
MENTAL HEALTH CARE:				
Mental Health-Outpatient		Non-severe psychiatric care: \$10 copayment for initial visit; \$50 copayment/visit thereafter (up to 20 combined visits per calendar year)		Non severe psychiatric care: 50% after deductible (up to 20 combined visits per calendar year)
		Severe mental illness: \$10 copayment/visit		Severe mental illness: 70% (after deductible)
		---Provided by United Behavioral Health		Must be arranged through MHSA----
Mental Health-Inpatient		100%		70% (after deductible) up to \$420 carrier max per day
		---Provided by United Behavioral Health		Must be arranged through MHSA----
OTHER PLAN BENEFITS				
Home Health Care		90% after deductible (combined 100 visits per calendar year)		70% after deductible (combined 100 visits per calendar year)
Hospice Care		100% when provided by authorized hospice agency		Not covered unless authorized by Blue Shield
Physical Therapy		90% after deductible		70% after deductible
Skilled Nursing Facility		90% after deductible (combined 100 days per calendar year)		70% after deductible (combined 100 days per calendar year)

*This is a limited benefit summary. Refer to the carrier summary for further details.
In case of discrepancies, the carrier's summary takes precedence.

2007 Premium Rates
Employee Only: \$459.17
Employee + One: \$927.86
Employee + Family: \$1,194.94



LOS ANGELES COUNTY FIRE FIGHTERS LOCAL 1014 HEALTH AND WELFARE PLAN

3460 FLETCHER AVENUE • EL MONTE, CALIFORNIA 91731
(310) 639-1014 (800) 660-1014 (within California)



July 20, 2006

JUL 21 2006

Marian Hall
Senior Human Resources Manager
County of Los Angeles
Department of Human Resources
3333 Wilshire Boulevard
Los Angeles, California 90010

Via Facsimile & Hard Copy by U.S. Mail
(213) 637-0820

2007 Plan Year Information Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan

Dear Ms. Hall:

In response to your request for information, I am providing the following information regarding 2007 plan design and premium changes for the Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan (Plan) that we wish to have included in your letter to the Board of Supervisors. These plan design and premium changes were approved by the Plan's Board of Trustees at their meeting of July 17, 2007.

The following minor benefit enhancements effective January 1, 2007 were approved to provide additional coverage for several health and wellness benefits or address important issues:

- Increase the annual wellness exam benefit from \$250 to \$550
- Eliminate the deductible for Well Baby Exams up to 2 years old.
- Increase age for immunizations with no copay or deductible through age 19.
- Cover flu shots for participants age 60 or over.
- Cover cancer screenings according to American Cancer Society guidelines with no copay or deductible
- Provide 12 months of Viagra following prostate surgery
- Increase hospice benefits to \$20,000

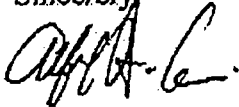


Premium rates for the Plan will increase 6.49% for 2007. The actual monthly rates rounded to the nearest dollar are as follows:

Member Only	\$ 446.00
Member + 1 Dependent	\$ 853.00
Family	\$1,011.00

If you have any questions please call me at (800) 660-1014.

Sincerely,



Alfred F. Cain
Administrative Manager

Received by _____ Date _____



LOS ANGELES COUNTY FIRE FIGHTERS LOCAL 1014 HEALTH AND WELFARE PLAN

3460 FLETCHER AVENUE • EL MONTE, CALIFORNIA 91731
(310) 638-1014 (800) 660-1014 (within California)



August 30, 2006

Marian Hall
Senior Human Resources Manager
County of Los Angeles
Department of Human Resources
3333 Wilshire Boulevard
Los Angeles, California 90010

Via Facsimile & Hard Copy by U.S. Mail
(213) 637-0833

Re: Addendum to July 20, 2006 letter for 2007 Plan Year Information
Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan

Dear Ms. Hall:

It has come to my attention that I need to make two additional requests for changes to the Los Angeles County Fire Fighters Local 1014 Health and Welfare Plan in addition to the plan changes and premium requests from my letter of July 20, 2006. I am assured that these changes have been approved by the Plan's Board of Trustees. These changes are as follows:

1. In-network maximum is \$1,000/person, \$1,000 per family
2. Out-of-network maximum is \$1,500 per person, \$1,500 per family

Please accept my personal apology for not including these on my July 20, 2006 letter.

If you have any questions please call me at (800) 660-1014.

Sincerely,

Alfred F. Cain
Administrative Manager

Received by _____ Date _____



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August 30, 2006

Ms. Marian Hall
Chief of Employee Benefits
Department of Human Resources
County of Los Angeles
3333 Wilshire Boulevard
Los Angeles, CA 90010

Subject:

**Summary of 2007 Health, Dental, and Life Renewal Results and Recommendations
(Represented Plans)**

Dear Marian:

This letter summarizes the results of our analysis and negotiation of the 2007 renewal proposals for health, dental, and life plans offered to the represented employees of the County of Los Angeles (County). In addition, it presents our recommendations for each plan.

The renewal request and negotiation process is outlined in the attached Addendum.

Medical Plans

Overview

For all represented medical plans, the total projected premium increase is 10.2% or \$43.3 million over 2006. This compares to an initial renewal increase of 12.2%, representing an \$8.6 million negotiated reduction in premium. No benefit changes are included in these renewal projections.

After evaluation of the renewal proposals, Mercer recommends that the County accept the final 2007 renewal increases offered by CIGNA (2.7% across all products), PacifiCare (6.3% HMO, 12.5% PPO) and Kaiser (Options 11.3%, Choices 15.0%). We believe the renewals are justified – although this determination is pending for Kaiser, where data required to complete the review process is outstanding. A summary of key issues, negotiation results and the proposal terms are outlined below by carrier.



Marsh & McLennan Companies

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Health & Benefits

Page 2

August 30, 2006

Ms. Marian Hall

County of Los Angeles

CIGNA

CIGNA initially proposed an overall 11.0% increase, almost \$4.3 million, on the Choices program. This renewal position included a \$51,194 credit for 2005 performance guarantee penalties.

The final renewal position is 2.7%, or an increase of \$1.0 million. As outlined in further detail below, CIGNA's required contractual renewal position is a 5.7% increase, but they have agreed to subsidize some of the renewal through the available premium stabilization reserve funds.

As in past years, the experience on the POS and PPO plans resulted in a higher renewal increase; however, given the low enrollment in the non-HMO programs, CIGNA proposed blending the rates across all programs. The HMO participants subsidize the POS and PPO participants. We reviewed the experience on the programs and challenged CIGNA on the following issues:

- As in past years, trend was higher than the County's actual experience
- The Premium Stabilization Reserve (PSR) is expected to grow to \$5.7 million by the end of 2006; we requested CIGNA use this PSR to offset their margin position

We were successful in negotiating revisions to CIGNA's renewal through the following concessions:

- Subsidy from the stabilization reserve to offset 3% of the renewal increase in addition to offsetting the 4% margin requirement
- Reduction in trend applied to the renewal projection

The County's financial agreement with CIGNA provides for a year-end reconciliation of premiums, claims and expenses associated with the plan. Surpluses are deposited to the PSR and any shortfall is withdrawn from the PSR to the extent funds are available. We believe that the County should develop an understanding with CIGNA regarding the primary objectives for managing the PSR balance. These objectives include:

1. Funds to offset claim fluctuation margin requirements

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Health & Benefits

Page 3
August 30, 2006
Ms. Marian Hall
County of Los Angeles

2. If funds in excess of the margin are available, a reasonable balance to cushion future rate increases (Mercer recommends no more than an amount equal to the margin requirement)
3. Surpluses in excess of #1 and #2 are returned via reduced rate increases so that members can benefit

The PSR has grown significantly in recent years, as illustrated in the table below. CIGNA has access to the PSR funds through the annual accounting process to offset any shortfalls which occur during the policy year. The PSR amounts available for 2007 are projected to be well in excess of the 4% claim fluctuation margin requirement (approximately \$1.6 million).

	2002	2003 ¹	2004	2005	2006	2007 ^{2,3}
Projected Premium	\$27,827,966	\$32,529,078	\$33,051,158	\$33,133,340	\$38,626,000	\$40,846,123
Beginning Premium Stabilization Reserve (PSR)	\$3,968,536	\$648,469	\$4,226,164	\$4,445,614	\$3,916,670	\$5,700,000
PSR % of Premium	14.3%	2.0%	12.8%	13.4%	10.1%	14.0%
2007 Subsidy for 4% margin	N/A					\$1,600,000
2007 Subsidy for 3% renewal increase						\$1,200,000
Projected 12/31/07 PSR						\$2,900,000

¹ Stabilization reserve was used to subsidize rates and margin requirement; in other years, the PSR subsidized the margin requirement

² CIGNA projection; actual 1/1/07 balance will vary, based on 2006 policy year results

³ Premium is prior to 3% renewal increase subsidy from premium stabilization reserve

CIGNA was not willing to reduce their risk charges or offer a preferred interest rate benchmark in recognition of the significant fund balance. However, they did agree to use the PSR to fund 3%, or \$1.2 million of the 2007 premium.

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Health & Benefits

Page 4

August 30, 2006

Ms. Marian Hall

County of Los Angeles

The County will be billed rates at a 2.7% increase over 2006; if additional premium is needed, CIGNA will use the PSR to fund the plan. CIGNA projects the value of the PSR will be about \$5.7 million at the end of 2006. In the unlikely event that the PSR is completely depleted, CIGNA could require the County to pay up to the 5.7% premium increase over 2006 rates. Given the historical experience, a catastrophic increase in claims would need to occur for the fund to be depleted by the end of 2007. While there is some small risk that the County will be required to pay additional funds, we believe this is unlikely. It is a prudent business decision for the County to accept CIGNA's offer to subsidize 3% of the 2007 rate increase through the PSR.

The PPO plan currently covers fewer than 50 employees and enrollment continues to decline, even though the rates are heavily subsidized by HMO participants. Without the subsidy, the PPO rates would increase by 121%. Due to these conditions, CIGNA offered an option to terminate the PPO plan. It is assumed that the PPO participants would enroll in the POS plan – and overall, CIGNA has projected that this change would be revenue neutral. However, we expect some savings will result due to the intensive utilization management and better provider contracts available in the POS and HMO programs and through administrative savings. A transition of care plan would be required for two out-of-state PPO participants.

We believe that CIGNA's offer to terminate the PPO plan is reasonable and agree that the PPO plan is not sustainable given the declining enrollment and increasing costs. However, the PPO product is currently protected by the County's bargaining agreement with the union.

It is our conclusion that CIGNA's final renewal position is justified based on the County's experience.

Kaiser

The County's enrollment in the Kaiser plans continues to be significantly greater than in the CIGNA and PacifiCare plans, with 65% of the represented population enrolled with Kaiser.

Kaiser's initial renewal position was 13.3% for Options and 15.0% for Choices. After extensive negotiations, Kaiser reduced the increase for Options to 11.3% and offered an alternative for Choices which would reduce their renewal to 13.0%. The Choices alternative requires a commitment to cost mitigation initiatives, similar to the SEIU Local 660 engagement, and engagement in a plan to reduce the risk of the County's Kaiser population. As of the date of this

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Page 5

August 30, 2006

Ms. Marian Hall

County of Los Angeles

letter, the Coalition has not agreed to accept Kaiser's alternate offer, so the renewal position remains at 15.0%. The negotiated savings for the Options revised renewal are \$3.8 million.

Assuming renewal increases of 11.3% for Options and 15.0% for Choices, the combined renewal increase is 12.5%, or \$35 million. Kaiser has stated that their average Southern California increase is approximately 8.5%; therefore, the County's increase is 47% above Kaiser's normal rate increase.

Kaiser recently introduced its National Pricing System (NPS) rating methodology, which uses client specific experience to develop rates. However, Kaiser has not produced the underlying data necessary to support and justify their high renewal position. In addition to a large base renewal increase, Kaiser also included a 2% rate load to account for its perception of deteriorating risk of the population. After negotiations, this load was removed for Options, but still applies to the Choices program, unless Kaiser's alternative proposal is accepted.

Kaiser did reaffirm their commitment to continue working with the County and SEIU Local 660 on the cost mitigation goals.

Key issues raised with Kaiser were:

- The necessity to provide detailed medical and prescription drug claims pricing schedule and utilization data to support their rate development and the large renewal increase
- Data supporting the additional 2% load for "deteriorating risk"
- Explanation and supporting data for an indicated 24% reported increase in inpatient hospital claims
- Explanation of the change in administration costs
- Action plan on the opening of the South LA clinic, which they committed to in 2005 for 2006
- Kaiser continues to be more expensive than competing HMO plans, with the 2007 rates 23% higher than the PacifiCare rates and 21% higher than the CIGNA rates
- Kaiser should present recommendations on cost mitigation goals to provide savings for the program

Numerous written requests and face-to-face meetings with representatives from the County, Kaiser, union consultants and Mercer attempted to resolve the above issues. Kaiser notified

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Health & Benefits

Page 6

August 30, 2006

Ms. Marian Hall

County of Los Angeles

Mercer on August 15 that one of the key outstanding items, a detailed claims database, would be delivered by 12/31/06.

We are not able to justify the renewal positions until Kaiser provides the requested data. Delivery of the data is not expected until after the close of the renewal process. Given the situation, we recommend that the County accept Kaiser's renewals, but continue to aggressively pursue the outstanding data, and review it against the renewal when it becomes available.

PacifiCare

PacifiCare originally proposed an overall increase of 8.2% – 7.9% for the HMO and 12.8% for the PPO. After initial negotiations, they provided a revised renewal of 7.5% - 7.2% for HMO and 12.5% for PPO – for an annual premium increase of \$7.6 million. This resulted in \$690,000 in savings from their original position. Further negotiations on several key issues resulted in a best and final offer of a 6.3% increase on the HMO, down from 7.2%, and an additional savings of about \$900,000.

Following are the key issues we addressed with PacifiCare:

- Conservative trend factors have resulted in significant surpluses over the previous three years, and a surplus is expected for 2006
- The renewal should take into account the enrollment growth and potential for improved risk, as demonstrated by PacifiCare's own data
- Alternative financial arrangements available to the County to allow the County to share in any future surpluses that result

PacifiCare's preliminary 2005 performance Guarantee report indicates a penalty of \$118,896, due to missing the targets for Average Speed of Answer and Claims Processing. This penalty was applied as a credit to the renewal. A final report including the HEDIS and CAHPS measures will be delivered in the fourth quarter 2006.

PacifiCare had been unwilling to reduce their trend factors or apply a rate credit for the expectation of additional membership; however, their last, best and final offer included a reduction to the HMO rates of 0.9%, or a savings of almost \$900,000.

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Health & Benefits

Page 7
August 30, 2006
Ms. Marian Hall
County of Los Angeles

Their offer includes a \$150,000 commitment towards funding health and wellness program incentives. They were not willing to apply the \$150,000 as a rate credit. The incentive credits may be implemented by BAC, after PacifiCare further defines the terms and conditions of the proposed program.

The PacifiCare plans are covered by a pooled financial arrangement – so the County does not share in any surpluses or shortfalls at the end of each plan year. In such an arrangement, it is expected that there will be a reasonable balance of gains and losses experienced by the carrier over time. A review of the Options experience indicates that PacifiCare has realized a surplus of approximately \$7.2 million or 2% of premium over the last five years; the projected surplus over the last three years has been even higher at 5% of premium.

Surpluses occur when claims paid for the Options plan are lower than PacifiCare's renewal projection. Through the renewal process we requested an alternate – or shared – financial arrangement for the County's program with PacifiCare. PacifiCare indicated that they would be willing to explore alternative financial arrangements for the County for the 2008 plan year. The contract terms and language require negotiation, and sufficient time was not available to accomplish this for the 2007 plan year. We recommend that the County pursue an alternate financial arrangement with PacifiCare for 2008, to avoid concerns about conservatism in the rate development.

With the most recent reductions, we believe that PacifiCare has justified their renewal position.

Dental Plans

Mercer recommends that the County accept the final 2007 renewal increases offered by Delta Dental (Options 7.6%, Choices 1.3%, two-year rate guarantee), Delta Care (4.5%, two-year rate guarantee) and Safeguard (0.4%). We believe the renewals are justified and support acceptance of a two year rate guarantee on the Delta plans. A two-year rate guarantee requires a slightly higher increase than a single year increase because the premium will need to support utilization and price increases (trend) for a two year period. However, the projected trend for the dental plans is relatively low. A two year rate will lock in this projection, and does not preclude the County from reviewing other carrier options for 2008. Also, most of the County's dental

MERCER

Health & Benefits

Page 8

August 30, 2006

Ms. Marian Hall

County of Los Angeles

participants enroll in the Delta Dental PPO plan, which is subject to a financial arrangement which returns surpluses to a stabilization reserve.

A detailed summary of key issues, negotiation results and the proposal terms are outlined below by carrier.

Delta Dental PPO

2006 is the last year of a three-year rate guarantee period for the Delta Dental PPO plan. Delta Dental guaranteed that the 2007 contract rate renewal would not exceed 8.7%. After analysis of the most recent experience, Delta Dental proposed new contract rates that are below this ceiling.

Delta Dental provided credits to their contract rates to reimburse the County for surpluses that developed in prior years. Consequently, the billed rates for Choices represent a 1.3% increase, and the billing rates for Options represent a 7.6% increase. Delta has guaranteed these billing rates for two years through December 31, 2008.

The rates also include a \$270,766 credit for missed performance guarantees (Represented and Non-represented plans combined).

Delta indicated their willingness to provide additional health services and a financial contribution to assist with wellness initiatives, as they pertain to dental services. The financial commitment was not defined – and further discussions must ensue with the County to agree on the specifics.

Mercer has reviewed the rate development process and the experience basis for the renewal positions, and concludes that the rating positions are justified. We recommend that the County accept the proposed two year rate guarantee.

Delta Care Prepaid Dental

Delta Care's three-year guarantee period also expires in 2006. They have delivered utilization analysis that shows expected costs will increase slightly in the coming year and have proposed two-year guaranteed rates that represent a 4.5% increase for both Choices and Options.

MERCER

Health & Benefits

Page 9

August 30, 2006

Ms. Marian Hall

County of Los Angeles

Contribution to wellness initiatives – see above for Delta Dental

The 2005 performance guarantees were met under the Delta Care plan.

Mercer has reviewed the rating process and concludes that the renewal rates are justified. We recommend that the County accept the proposed two year rate guarantee.

Safeguard Prepaid Dental

2007 is the last year of a three-year guarantee period for the current contract with Safeguard. The 2007 billed rates will increase by 0.4% for both Choices and Options due to a small difference in the performance guarantee penalties credited between the 2006 and 2007 renewals. Mercer concludes that this is justified.

Safeguard agreed to allocate \$10,000 (providing educational materials) towards the County/Local 660's wellness initiatives. They requested more information about the specific initiatives that relate to their business lines - dental and vision.

Basic/Voluntary Life and Personal Accident Insurance (PAI) - CIGNA

Mercer recommends that the County accept the final 2007 renewal increases offered by CIGNA (Basic Life 19.6% increase, Optional Life 12.3% reduction – Represented employees only, Dependent Life 12.0% reduction – Represented employees only, PAI 16.7% increase -single). The rate guarantee periods would be one year for Basic Life and PAI and three years for Optional and Dependent Life plans. We believe the renewals are justified. A detailed summary of key issues, negotiation results and the proposal terms are outlined below.

The 2006 plan year is the final year of a three year rate guarantee period for the life and PAI plans. CIGNA's initial 2007 renewal proposal was a rate continuance for basic life, dependent life and PAI coverage for a three or five-year term and a 13% decrease for a three-year term, or a 10% decrease for a five-year term for the optional life coverage. However, this initial position was revised for a number of reasons:

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Health & Benefits

Page 10

August 30, 2006

Ms. Marian Hall

County of Los Angeles

- CIGNA's rating approach cross-subsidized the basic and optional life rates inappropriately, so we requested they correct this
- Requested rates for a one year period for each coverage
- Requested the impact to carve out the non-represented population from the optional life experience and rate the groups separately
- Realign rates to avoid "straddling" IRS Table I

CIGNA's revised proposal did not cross-subsidize the basic and optional life rates.

- Basic life: 19.6% increase for a one year period, and 25.7% or 30.0% increases for three and five year periods, respectively
- PAI: 16.7% increase for a one year period, and 22.2% or 27.8% increases for three and five year periods, respectively for the single rate. Increases for the family rate tier are higher, however, the PAI rates are very small and the largest increase equates to less than \$0.02 per \$1,000 covered volume per month.
- Optional group life and Dependent Life:
 - Represented and Non-represented employees combined (current methodology)
 - 21.3% decrease for a one year term, and a 17.4% decrease or 14.6% decrease for three and five year terms, respectively
 - Represented employees only on a stand-alone basis (assumes the County carves out the Non-represented population)
 - Optional life: 12.3% decrease for a one or three year term, and a 7.9% decrease for a five year term
 - Dependent life: decrease 12.0% for a one or three year term, and a 7.6% decrease for a five year term

In order to assess the impact of carving out the Non-represented population from the optional life plan, CIGNA provided the County with a five-year claims history for the life plans. The County identified Non-represented employees versus Represented employees, and premiums and claims were allocated accordingly. Our analysis indicated that Represented employee rates should decrease approximately 12%. CIGNA concurred with this assessment by proposing the Represented optional rates decrease 12.3% from current if they were rated separately for a one or

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Health & Benefits

Page 11
August 30, 2006
Ms. Marian Hall
County of Los Angeles

three-year term. The actual result, based on enrolled volume by age, is an optional life premium decrease of 14.7%. This result was shared with CIGNA and they agreed to accept it.

CIGNA agreed to offer \$5000 towards the County's wellness initiatives.

The County's experience supports the proposed increase to the basic life rate and decreases to the optional life rates and we believe the renewal positions are justified. We recommend that the County proceed with a one year rate guarantee for Basic life, and PAI, and the three year rate guarantee for Optional life for employees and dependents.

Sincerely,



Marci K. Burns

Copy:

Frank Frazier, County of Los Angeles

Greger Vigen, Mercer Health & Benefits – Los Angeles Office

Jeff Whitman, Mercer Health & Benefits – Los Angeles Office

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Health & Benefits

Page 12

August 30, 2006

Ms. Marian Hall

County of Los Angeles

Addendum

Process

The renewal request, analysis and negotiation are multi-step processes, conducted over a period of several months. A planning meeting with the County begins the process, in which objectives for the following plan year are established. Stakeholders include the County, Unions (Coalition of County Unions and SEIU-Local 660), Union consultants and Mercer.

Based on the planning meeting discussions, a Request for Proposal (RFP) is drafted and reviewed by all stakeholders. The RFP includes:

- Stated assumptions and requirements, including a submission letter to be signed by a company officer with the authority to bind their proposal
- Questionnaire encompassing carrier financial results, prescription drugs and provider issues, health and productivity management, administration, and quality issues.
- Plan performance exhibits comparing the County's past plan results to the carriers' book of business results
- Rate quotation, rate development and projected cost exhibits
- Benefit design and contract changes
- Performance guarantees

All stakeholders submit requested changes to the draft. These are reviewed and incorporated into the final RFP, which is then released to the carriers.

Carrier proposals are submitted to all stakeholders at the same time. Following a review and analysis period, Mercer drafts negotiation letters for each plan. The drafts are reviewed by the County and the Union consultants, and their respective comments are incorporated before release

MERCER

Health & Benefits

Page 13

August 30, 2006

Ms. Marian Hall

County of Los Angeles

to the carriers. Weekly status conference calls are conducted between Mercer and the County to discuss the renewal results, negotiation process and any open issues.

Responses to the negotiation letters are due from the carriers prior to the renewal meetings. Again, the responses are delivered to all stakeholders concurrently. Final issues are reviewed and prepared for the renewal meetings.

Two-hour renewal meetings are conducted with each carrier. Due to the unique circumstances associated with the Kaiser renewal, several additional meetings were also held, including meetings with their senior management. Attendees include representatives from DHR, CAO, Union consultants, BAC and EBAC committees and Mercer, as well as the carrier representatives. The carrier representatives generally include account/sales management, financial, operations, and medical/provider relations personnel. Issues discussed during the meetings include: rate development/proposal rates, performance guarantees, RFP deviations, network contracting environment and quality initiatives. Outstanding issues and requests for reduced rates – where areas of opportunity exist – are identified for each carrier. Following the meeting, carriers must respond to all identified issues in writing to all stakeholders.

The review and negotiation process continues until all open issues are resolved or the carrier has presented their final offer. The negotiation does not always result in agreement on particular topics; however, it may result in overall business concessions from the carriers.

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August 30, 2006

Ms. Marian Hall
Chief of Employee Benefits
Department of Human Resources
County of Los Angeles
3333 Wilshire Boulevard
Los Angeles, CA 90010

Subject:

**Summary of 2006 Health, Dental, and Life Renewal Results and Recommendations
(Non-represented Plans)**

Dear Marian:

This letter summarizes the results of our analysis and negotiation of the 2007 renewal proposals for health, dental, and life plans offered to the non-represented employees of the County of Los Angeles (County). In addition, it presents Mercer's recommendations for each plan.

The renewal request and negotiation process is outlined in the attached Addendum.

Medical Plans

Overview

For all medical plans, the total projected premium increase for the current benefit programs is 5.1% or \$4.0 million. This compares to an initial increase of 9.9% or \$7.7 million. Negotiated savings were \$3.7 million. These results are prior to benefit design changes which are outlined below. Following the benefit design changes, the final renewals are 5.3% or an increase of \$4.1 million. The Blue Cross program is self-funded and expected and maximum liability costs are projected. The Blue Cross expected costs are the basis for the renewals outlined in this letter.

After evaluation of the renewal proposals, Mercer recommends that the County accept the final 2007 renewal increases offered by Blue Cross (average 6.4% across all products, including benefit design changes) and Kaiser (3.64%, including benefit design changes). We believe the renewals are justified – although this determination is pending for Kaiser, where data required to complete the review process is outstanding. A summary of key issues, negotiation results and the proposal terms are outlined below by carrier.



Marsh & McLennan Companies

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Health & Benefits

Page 2

August 30, 2006

Ms. Marian Hall

County of Los Angeles

Blue Cross

For the 2007 plan year, Blue Cross proposed an increase for all plans combined of approximately 13.9% or \$6.6 million, before negotiations. The final renewal, following negotiations and benefit design changes is 6.4%, an annual increase of \$3.0 million.

All plans are funded through a minimum premium arrangement with specific stop loss of \$300,000 per individual. The aggregate stop loss will continue to be set at 120% of projected claims for all plans. Projected 2007 maximum liability for the Blue Cross plans is \$57.7 million, based on the current enrollment by product.

In reviewing Blue Cross' original renewal proposal, we identified several key issues:

- Higher than needed medical trend factors. Blue Cross utilizes book-of-business trend factors for this group. Actual experience for the County has shown a trend significantly lower.
- Incorrect allocation of prescription drug premium by product
- Increases in stop loss charges
- Need for additional information on large claimants and disease management programs

As a result of negotiations, Blue Cross agreed to reduce their medical trend factors by 1.5%/annum across all products. The reduction in trend accompanied by additional experience data resulted in a revised overall renewal of a 6% increase over 2006. The renewal was further adjusted by the proposed benefit design changes.

The following benefit changes will be made to the Blue Cross HMO, POS and PPO programs:

- Increase prescription drug copayments to \$10generic/\$20 brand.
- Change pediatric copayment for illness to \$0 to age 5. Wellness visits are currently covered through age 6 with no copayment.
- In 2006, the emergency room copayment was increased to \$50. Blue Cross recently discovered that this change was not implemented for the out-of-state population covered under the Blue Card plan. The Blue Card emergency room copayment will increase to \$50 on 1/1/07. There is no rate impact as only five members are currently covered under this plan.

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Health & Benefits

Page 3

August 30, 2006

Ms. Marian Hall

County of Los Angeles

Vision benefits for the HMO, POS, and PPO plans are offered on a non-participating insured basis through an arrangement between Blue Cross and VSP. A small rate decrease was initially offered for the current benefit program.

The County will make a change to the vision frame benefit, increasing the frequency to once every 12 months. After negotiations, the final vision rates, including this change, will increase slightly. The vision rate change has a 0.3% increase on the overall Blue Cross renewal.

Blue Cross also responded with a quote for their vision plan, Blue View Vision. The proposed rates are slightly lower than the VSP rates; however, a change in carriers will result in provider network differences and member out-of-pocket differences. The impact of these would not be known unless a full study was done to closely compare the two options. If a change in the vision provider is desired, we recommend that the County consider this as part of a broader vendor marketing.

Blue Cross provided their 2005 performance guarantee report and applied the penalty of \$283,664 to the County's invoice for April 2006.

We believe Blue Cross' most recent renewal proposal is justified and recommend that the County accept it.

Kaiser

Kaiser enrolls 43% of the Non-represented medical enrollees. Kaiser's initial renewal position was 3.7% and the final position, including benefit changes, is 3.64%, or \$1.1 million, for the Non-represented plan. This result compares favorably to Kaiser's stated average Southern California increase of approximately 8.5%.

The following benefit changes will be made to the Kaiser plan:

- Increase prescription drug copayments to \$10 generic/\$20 brand
- Change pediatric copayment for illness and well child to \$0 to age 5. Wellness visits are currently covered through age 2 with no copayment

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Health & Benefits

Page 4

August 30, 2006

Ms. Marian Hall

County of Los Angeles

Kaiser recently introduced its National Pricing System (NPS) rating methodology, which uses client specific experience to develop rates. However, Kaiser has not produced the underlying data necessary to support and justify their renewal position. Even though the renewal is low in comparison to the average increase, it is important to understand the rate development, cost drivers and plan utilization.

Key issues raised with Kaiser were:

- The necessity to provide detailed medical and prescription drug claims pricing schedule and utilization data to support their rate development
- Explanation and supporting data for reported increases in inpatient hospital claims
- Explanation of the change in administration costs
- Action plan on the opening of the South LA clinic, which they committed to in 2005 for 2006
- Kaiser should present recommendations on cost mitigation goals to provide savings for the program

Numerous written requests and face-to-face meetings with representatives from the County, Kaiser, and Mercer attempted to resolve the above issues. Kaiser notified Mercer on August 15 that one of the key outstanding items, a detailed claims database, would be delivered by 12/31/06.

We are not able to justify the renewal positions until Kaiser provides the requested data. Delivery of the data is not expected until after the close of the renewal process. Given the situation, we recommend that the County accept Kaiser's renewal for Non-represented employees, but continue to aggressively pursue the outstanding data, and review it against the renewal when it becomes available.

Dental Plans

Mercer recommends that the County accept the final 2007 renewal increases offered by Delta Dental (1.3%, two-year rate guarantee), Delta Care (4.5%, two-year rate guarantee) and Safeguard (0.4%). We believe the renewals are justified and support acceptance of a two year rate guarantee on the Delta plans. A two-year rate guarantee requires a slightly higher increase

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Health & Benefits

Page 5

August 30, 2006

Ms. Marian Hall

County of Los Angeles

than a single year increase because the premium will need to support utilization and price increases (trend) for a two year period. However, the projected trend for the dental plans is relatively low. A two year rate will lock in this projection, and does not preclude the County from reviewing other carrier options for 2008. Also, most of the County's dental participants enroll in the Delta Dental PPO plan, which is subject to a financial arrangement which returns surpluses to a stabilization reserve.

A detailed summary of key issues, negotiation results and the proposal terms are outlined below by carrier.

Delta Dental PPO

2006 is the last year of a three-year rate guarantee period for the Delta Dental PPO plan. Delta Dental guaranteed that the 2007 contract rate renewal would not exceed 8.7%. After analysis of the most recent experience, Delta Dental proposed new contract rates that are below this ceiling.

Delta Dental provided credits to their contract rates to reimburse the County for surpluses that developed in prior years. Consequently, the billed rates for the non-represented employees represent a 1.3% increase. Delta has guaranteed these billing rates for two years through December 31, 2008.

The rates also include a \$270,766 credit for missed performance guarantees (Represented and Non-represented plans combined).

Delta indicated their willingness to provide additional health services and a financial contribution to assist with wellness initiatives, as they pertain to dental services. The financial commitment was not defined – and further discussions must ensue with the County to agree on the specifics.

Mercer has reviewed the rate development process and the experience basis for the renewal positions, and concludes that the rating positions are justified. We recommend that the County accept the proposed two year rate guarantee.

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Health & Benefits

Page 6
August 30, 2006
Ms. Marian Hall
County of Los Angeles

Delta Care Prepaid Dental

Delta Care's three-year guarantee period also expires in 2006. They have delivered utilization analysis that shows expected costs will increase slightly in the coming year and have proposed two-year guaranteed rates that represent a 4.5% increase.

Contribution to wellness initiatives – see above for Delta Dental

The 2005 performance guarantees were met under the Delta Care plan.

Mercer has reviewed the rating process and concludes that the renewal rates are justified. We recommend that the County accept the proposed two year rate guarantee.

Safeguard Prepaid Dental

2007 is the last year of a three-year guarantee period for the current contract with Safeguard. The 2007 billed rates will increase by 0.4%, due to a small difference in the performance guarantee penalties credited between the 2006 and 2007 renewals. Mercer concludes that this is justified.

Basic Life and Personal Accident Insurance (PAI) - CIGNA

Mercer recommends that the County accept the final 2007 renewal increases offered by CIGNA for a one year guarantee period (Basic Life 25.7% increase and PAI 22.2% increase -single). CIGNA also presented renewals for the optional, survivor and dependent life plans. However, the County reviewed other carrier options for these plans and following a review of the marketing results, the recommendation is to place these coverages with MetLife. The proposed MetLife optional program cost is slightly higher than the CIGNA renewal, although it represents a 25% reduction from the current optional group life rates. The new program provides optional life insurance through term insurance. In addition, the plan will allow participants to establish a Group Variable Universal Life account and contribute additional funds for investment purposes. The basic life and PAI plans will remain with CIGNA.

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Health & Benefits

Page 7

August 30, 2006

Ms. Marian Hall

County of Los Angeles

We believe the renewals for these products are justified. A detailed summary of key issues, negotiation results and the proposal terms are outlined below.

The 2006 plan year is the final year of a three year rate guarantee period for the life and PAI plans. CIGNA's initial 2007 renewal proposal was a rate continuance for basic life, dependent life and PAI coverage for a three or five-year term and a 13% decrease for a three-year term, or a 10% decrease for a five-year term for the optional life coverage. However, this initial position was revised for a number of reasons:

- CIGNA's rating approach cross-subsidized the basic and optional life rates inappropriately, so we requested they correct this
- Requested rates for a one year period for each coverage
- Requested the impact to carve out the non-represented population from the optional life experience and rate the groups separately

CIGNA's revised proposal did not cross-subsidize the basic and optional life rates.

- Basic life: 19.6% increase for a one year period, and 25.7% or 30.0% increases for three and five year periods, respectively
- PAI: 16.7% increase for a one year period, and 22.2% or 27.8% increases for three and five year periods, respectively for the single rate. Increases for the family rate tier are higher, however, the PAI rates are very small and the largest increase equates to less than \$0.02 per \$1,000 covered volume per month.

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Health & Benefits

Page 8

August 30, 2006

Ms. Marian Hall

County of Los Angeles

CIGNA agreed to offer \$5000 towards the County's wellness initiatives.

The County's experience supports the proposed increase to the basic life and PAI rates and we believe the renewal positions are justified. We recommend that the County proceed with the one year rate guarantee option.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marci".

Marci K. Burns

Enclosure

Copy:

Frank Frazier, County of Los Angeles

Greger Vigen, Mercer Health & Benefits

Jeff Whitman, Mercer Health & Benefits

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Health & Benefits

Page 9
August 30, 2006
Ms. Marian Hall
County of Los Angeles

Addendum

Process

The renewal request, analysis and negotiation are multi-step processes, conducted over a period of several months. A planning meeting with the County begins the process, in which objectives for the following plan year are established. Stakeholders for the Non-represented plan include the County and Mercer.

Based on the planning meeting discussions, a Request for Proposal (RFP) is drafted and reviewed by all stakeholders. The RFP includes:

- Stated assumptions and requirements, including a submission letter to be signed by a company officer with the authority to bind their proposal
- Questionnaire encompassing carrier financial results, prescription drugs and provider issues, health and productivity management, administration, and quality issues.
- Plan performance exhibits comparing the County's past plan results to the carriers' book of business results
- Rate quotation, rate development and projected cost exhibits
- Benefit design and contract changes
- Performance guarantees

All stakeholders submit requested changes to the draft. These are reviewed and incorporated into the final RFP, which is then released to the carriers.

Carrier proposals are submitted to all stakeholders at the same time. Following a review and analysis period, Mercer drafts negotiation letters for each plan. The drafts are reviewed by the County, and their comments are incorporated before release to the carriers. Weekly status

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Health & Benefits

Page 10

August 30, 2006

Ms. Marian Hall

County of Los Angeles

conference calls are conducted between Mercer and the County to discuss the renewal results, negotiation process and any open issues.

Responses to the negotiation letters are due from the carriers prior to the renewal meetings. Again, the responses are delivered to all stakeholders concurrently. Final issues are reviewed and prepared for the renewal meetings.

Two-hour renewal meetings are conducted with each carrier. Due to the unique circumstances associated with the Kaiser renewal, several additional meetings were also held, including meetings with their senior management. Attendees include representatives from DHR, CAO and Mercer, as well as the carrier representatives. The carrier representatives generally include account/sales management, financial, operations, and medical/provider relations personnel. Issues discussed during the meetings include: rate development/proposal rates, performance guarantees, RFP deviations, network contracting environment and quality initiatives. Outstanding issues and requests for reduced rates – where areas of opportunity exist – are identified for each carrier. Following the meeting, carriers must respond to all identified issues in writing to all stakeholders.

The review and negotiation process continues until all open issues are resolved or the carrier has presented their final offer. The negotiation does not always result in agreement on particular topics; however, it may result in overall business concessions from the carriers.

2007 Renewal Results									
	2006	2007 Original renewal - current plan	2007 Negotiated renewal - final plan	Percent Change	Negotiated Savings - current plan ¹	Total Savings - Final Benefit Design and Plan Restructuring ²	Savings Comments		
Flex/MegaFlex									
Kaiser	\$30,685,624	\$31,822,315	\$31,402,539	3.6%	\$0	\$19,775	Benefit design change (-\$19,775)		
Blue Cross ³	\$47,314,465	\$54,195,927	\$50,329,364	6.4%	\$3,706,968	\$3,547,372	Reduced medical trend & vision rates; (\$3,706,968) benefit design change (-\$159,595)		
Options									
Kaiser	\$193,464,291	\$219,233,002	\$215,172,452	11.3%	\$3,860,550	\$3,860,550	Reduction to remove underwriting load		
Pacificare ⁴	\$102,031,817	\$110,375,281	\$108,818,528	6.7%	\$1,556,753	\$1,556,753	Reduction in trend		
Choices									
Kaiser	\$90,086,181	\$103,605,269	\$103,605,269	15.0%	\$0	\$0	Proposed a 2% reduction contingent on commitment to cost mitigation goals and objective		
CIGNA ^{5,6}	\$38,625,797	\$42,887,798	\$39,606,916	2.7%	\$3,218,882	\$3,218,882	Subsidy from substandard reserve; reduced medical trend		
Total Medical	\$502,208,175	\$562,119,591	\$549,597,067	9.4%	\$12,343,153	\$12,203,332			
Delta³									
Flex	\$7,299,716	\$7,402,418	\$7,402,418	1.4%	\$0	\$0			
Options	\$27,911,120	\$29,983,619	\$29,983,619	7.3%	\$0	\$0			
Choices	\$16,005,780	\$16,258,309	\$16,258,309	1.6%	\$0	\$0			
Safeguard⁴									
Flex	\$181,458	\$182,143	\$182,143	0.4%	\$0	\$0			
Choices/Options	\$2,930,603	\$2,941,703	\$2,941,703	0.4%	\$0	\$0			
Total Dental	\$54,348,677	\$56,768,192	\$56,768,192	4.5%	\$0	\$0			
CIGNA Basic Life⁶									
Flex/MegaFlex	\$34,826	\$43,759	\$41,639	19.6%	\$2,120	\$2,120			
Choices/Options	\$982,091	\$1,234,018	\$1,174,239	19.6%	\$59,779	\$59,779			
CIGNA Optional Life⁶									
Choices/Options	\$14,961,109	\$12,231,664	\$12,765,836	-14.7%	\$0	\$2,195,272			
MetLife Optional Life²									
Flex/MegaFlex	\$13,500,000	\$8,734,500	\$10,017,000	-25.8%	\$0	\$3,483,000			
Total Life¹	\$39,478,025	\$32,343,942	\$33,998,715	-18.6%	\$61,899	\$5,740,172			
Total Premium/Saving	\$586,034,878	\$611,131,725	\$630,363,974	7.6%	\$12,405,052	\$17,943,504			
¹ Reflects changes in total cost from original renewal to final renewal proposal based on current plan design									
² Reflects changes in total cost from original renewal to final renewal proposals and final savings after plan restructuring									
³ Performance Guarantee credits paid directly to the County (Blue Cross)									
⁴ Performance Guarantee credits incorporated into original renewal (Pacificare, CIGNA, Delta, Safeguard)									
⁵ CIGNA and Delta Dental Negotiated Renewals are based on the billed, subsidized rate									
⁶ CIGNA Life rate guarantee periods: Basic Life 1 year, Optional Life 3 year									
⁷ 2006 plan provided by CIGNA, rates blended with Represented population									
⁸ Life premiums do not include PAL/Dependent Life or Survivor Life plans									
Total Savings, including PC Credit:									
Savings:									
Performance guarantee credit					\$738,494	\$738,495			
Other savings					\$12,405,052	\$17,943,503			

The proposed renewal rates for the MetLife program are higher than the proposed CIGNA renewal. This difference is not reflected in the Negotiated Savings column, but is taken into account in the Total Savings. Program design change and improved benefit terms, including the ability to establish a CIVIL account, are included in the MetLife program. The Total Savings reflect the final \$3.5 million, or 25.8%, reduction from current 2006 rates.

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DEPARTMENT OF PUBLIC EMPLOYEE UNIONS

COALITION OF COUNTY UNIONS

Los Angeles County
Federation of Labor,
AFL-CIO



MEMBER UNIONS

SENT VIA FACSIMILE AND U.S. MAIL ON AUGUST 22, 2006

AMERICAN FEDERATION
OF STATE, COUNTY &
MUNICIPAL EMPLOYEES
COUNCIL 36, AFL-CIO

ASSOCIATION FOR LOS
ANGELES DEPUTY
SHERIFFS
MEBA, AFL-CIO

CALIFORNIA ASSOCIATION
OF PROFESSIONAL
EMPLOYEES
MEBA, AFL-CIO

INTERNATIONAL UNION OF
OPERATING ENGINEERS
LOCAL 501, AFL-CIO

COUNCIL OF INTERNS
AND RESIDENTS
SEIU 1957

LOS ANGELES COUNTY
BUILDING &
CONSTRUCTION
TRADES COUNCIL, AFL-CIO

LOS ANGELES COUNTY
FIRE FIGHTERS
LOCAL 1014, AFL-CIO

LOS ANGELES COUNTY
LIFEGUARD ASSOCIATION
MEBA, AFL-CIO

LOS ANGELES COUNTY
POLICE OFFICERS
ASSOCIATION
I.U.P.A. LOCAL 110, AFL-CIO

DEPUTY PROBATION
OFFICERS UNION
LOCAL 685, AFSCME, AFL-CIO

PROFESSIONAL PEACE
OFFICERS ASSOCIATION

SERVICE EMPLOYEES
INTERNATIONAL UNION
LOCAL 535

Mr. Frank Frazier, Chair
Employee Benefit Administration Committee
Chief Administrative Office
500 W. Temple St, Room 526
Kenneth Hahn Hall of Administration
Los Angeles, CA 90012

**RE: CONFIRMATION OF COALITION'S EBAC
REPRESENTATIVES' POSITION REGARDING COUNTY-
SPONSORED PLANS 2007 PROPOSED RENEWAL RATES**

Dear Mr. Frazier:

This letter confirms the Coalition's EBAC Representatives' position regarding County-sponsored Plans 2007 proposed rate renewals as discussed in the August 9, 2006 joint meeting of the Representatives for the County and the Coalition of County Unions regarding a successor Fringe Benefits Memorandum of Understanding and the Employee Benefits Administrative Committee (EBAC).

It was disappointing to learn that after the parties have been pressing Kaiser for nearly five months now, it had not provided the information previously request which is necessary to determine whether its proposed 07 rate increase for the existing Plan is justified. Just as disappointing was the message that the requested information was unlikely to be received before the fall of 2006 which foreseeably will be after the expiration date of our current Fringe Benefits Memorandum of Understanding. While your own opinion that the information ultimately received from Kaiser will be "soft" only served to heighten the Coalition's concern over the non-responsive manner in which Kaiser has elected to do business with the County and the thousands of Kaiser subscribers. Based on these circumstances, it was not surprising to hear Mercer's representative state that based on the information received to date from Kaiser none of the carrier's proposed rate increases for the Coalition, Local 660, and the non-represented subscribers could be justified.

BLAINE J. MEEK
CHAIR

BUD TREECE
JOSEPH P. WETZLER
CHAIR EMERITUS

Mr. Frank Frazier, Chair
August 22, 2006
Page 2 of 2

Based on this presentation, the Coalition's EBAC Representatives decided they could not take a position on Kaiser's proposed rate increases until such time as Kaiser provides the now long overdue previously requested information necessary to determine whether its proposed rate increase is justified.

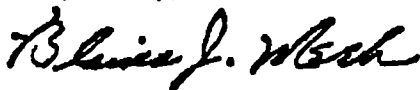
Additionally, the Coalition's EBAC Representatives oppose the County's proposal to use a significant portion of the balance in the CIGNA Health Plans Reserve Account to further lower CIGNA's already competitive rate renewal of 5.7%. We believe that to use this Reserve Account at this time is not prudent given the changing and unpredictable County employee health care costs environment we have experienced and are likely to continue to experience in the next few years. Rather, this Reserve Account should be used to lower high rates in any particular year that are due to unexpected bad experience.

Finally, the County's proposal to remove the non-represented employees from the pool for the Optional Life Insurance Program is of deep concern to the Coalition. This matter must be addressed in the current negotiations for a successor Fringe Benefits Memorandum of Understanding between the parties.

Please be advised that once the parties have the necessary information and addressed their concerns the Coalition's EBAC Representatives are prepared to move expeditiously to meet with our management counterparts to reach a consensus recommendation for consideration by the Board of Supervisors.

If you have any questions regarding this matter please contact me at your earliest convenience.

Respectfully,



Blaine J. Meek, Chair
Coalition of County Unions

cc: All Coalition members
Jim Adams

MERCER

Human Resource Consulting

462 South Fourth Street, Suite 1100
Louisville, KY 40202-3415
502 561 4777 Fax 502 561 4700
matt.leckrone@mercer.com
www.mercerHR.com

September 1, 2006

Mr. William Lynes
Division Chief
County of Los Angeles
526 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Subject:

Summary of 2006 Group Life Insurance Plan Results and Recommendations

Dear Bill:

This letter summarizes the results of our analysis of the 2007 proposals for the group life insurance plans offered to the non-represented employees of the County of Los Angeles. In addition, it presents our recommendations.

Process

The plan design and proposal request are multi-step processes, conducted over a period of several months. Assigned representatives of the County and Mercer initiated the process and established objectives at a planning meeting, after which a preliminary plan design was developed. This design was based on specific plan objectives and administration constraints of potential vendors.

The various plan designs reviewed included the following:

- Employer-paid coverage
 - The County pays premiums on an individual policy.
 - The current group term coverage is left in place.
 - Participation levels permit guaranteed issue underwriting, however this becomes costly for the County to provide.
- Voluntary (or Employee-paid) coverage
 - The employee may elect to purchase an individual policy.
 - The current group term coverage is left in place.
 - There is no cost for the County, but guaranteed issue underwriting is not available unless participation levels are high.

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Page 2

September 1, 2006

Mr. William Lynes

County of Los Angeles

- Group Term Carve Out
 - The company pays 50% of the premiums on an individual policy in lieu of group term coverage with CIGNA.
 - Participation levels permit guaranteed issue underwriting and this option is less costly than fully employer-paid coverage.
 - On the other hand, this coverage removes a group of employees from the group term plan and may increase individual costs for certain older employees.

In the first phase, eleven brokers were selected based on Mercer's knowledge of the marketplace and recommendations of the primary insurance carriers actively participating in this market. A Request for Proposal (RFP) was drafted and sent to the chosen brokers. The criteria for selecting a broker included:

- Term premium rates
- Product features, including:
 - rate guarantees
 - maximum coverage limits
 - maximum guaranteed issue limits
 - underlying investment options
 - interest crediting rates
- Carrier credit ratings
- Commissions to the broker

Four broker responses were submitted to the County. Following a review and analysis period, it became apparent that the County might be better served pursuing an alternative plan design.

An alternative plan design was developed based on market responses. A second RFP was distributed to a more select group of vendors. Three brokers were selected to participate. Since the number of carriers participating in this marketplace is limited, increasing the number of vendor responses would not have created any additional options for the County. Two of the brokers responded to the RFP (Executive Financial and Bozajian & Carter) and ultimately agreed to work as a team to provide the County with the best of the services that each had to offer. Three insurance carriers (MassMutual, Minnesota Life, and MetLife) and products were reviewed.

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Page 3

September 1, 2006

Mr. William Lynes

County of Los Angeles

Group Life Insurance

After reviewing the pool of carriers that offered the most competitive products, it was determined that MetLife would provide the most appropriate option for the County's needs.

MetLife

For the 2007 plan year, there is a reduction in cost for the vast majority of current active participants and in aggregate for the County (as compared to 2006 CIGNA rates). Minnesota Life offered a rate that is a 30% reduction in aggregate cost and MetLife offered a rate which is a 25% reduction in cost.

Although MetLife has a higher cost than the other carrier, the key issues we noted were:

- Higher guaranteed issue limits
- Lower term rates at upper ages where participants will see an increase in rates
- A more appropriate product that is intended for permanent insurance
- Greater rate stability for participants who are no longer active
- Contractual obligation to allow participants who cease active employment to retain their coverage regardless of the County's future relationship with MetLife

MetLife's commission rates (4.5% of annual term premiums and 1% of excess premium; i.e., voluntary participant contributions to side fund) are the standard level of commissions on MetLife products. The commissions are vested for the first year and are vested for years two through five provided that the County continues the coverage through MetLife and the brokers continue to provide the services listed in the service agreement.

The services to be provided by the broker include the following:

- Initial GVUL Enrollment
 - Design, develop and implement a life insurance program for all non-represented employees
 - Negotiate a favorable pricing structure and plan terms
 - Communicate all information regarding competitive analysis between insurers with Mercer Consulting
 - Facilitate a transition of the SIB plan and develop a strategy to coordinate the GVUL amounts with any SIB amounts

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Page 4

September 1, 2006

Mr. William Lynes

County of Los Angeles

- Act as liaison between the Insurer, the various County departments: Auditor Controller, Chief Administrative Office, Human Resources, etc., and the various County consultants including Buck Consultants and AON.
- Establish systems and IT compatibility among the Insurer, the County and Buck Consultants.
- Develop passive enrollment structure to ensure that all current participants receive the same level of coverage under the GVUL program.
- Be available for any necessary communication during the implementation processing, including conference calls, meetings with key County staff, WebEx's, etc.
- Organize the development of a communication strategy to announce the new program.
- Be available for face to face meetings with key participants
- On-Going Service
 - Exist as a liaison between the Insurer, the various County departments: Auditor Controller, Chief Administrative Office, Human Resources, etc., and the various County consultants including Buck Consultants and AON.
 - Engage as necessary to ensure that all facets of the plan administration perform as smoothly as possible.
 - Be available on a day-to-day basis to address all problems/situations that arise, including but not limited to, eligibility concerns, coverage discrepancies, underwriting difficulties, billing issues, IT communication matters, death claims or other administrative issues.
 - Develop communication strategies as requested should the County wish to promote the GVUL program during the plan year.
 - Keep the County informed regarding changes in the marketplace affecting this product.
 - Provide County with reports concerning participation and on-going statistical information.
 - Negotiate the most favorable pricing and terms during the renewal process.
 - Solicit quotes from other insurance carriers if necessary.
 - Negotiate on behalf of the County for the most appropriate offer.
 - Communicate all information regarding competitive analysis between insurers with Mercer Consulting.
 - Assist the County with evaluations of offers/options.

We believe MetLife's most recent proposal is justified and recommend that the County accept it.

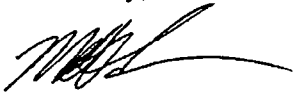
Please contact me or Jeff with any questions related to this plan.

MERCER

Human Resource Consulting

Page 5
September 1, 2006
Mr. William Lynes
County of Los Angeles

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Leckrone', with a long horizontal flourish extending to the right.

Matt Leckrone

Copy: Mr. Wayne Willard, Ms. Lorraine Sunday-Brown – County of Los Angeles
Mr. Jeff Whitman – Mercer Human Resource Consulting (Los Angeles)
Ms. Lisa Spurlock – Mercer Human Resource Consulting (Louisville)

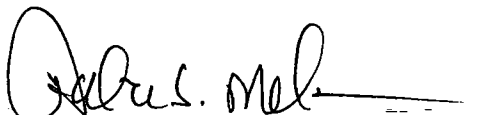
ANALYSIS

This ordinance amends Title 5 - Personnel, of the Los Angeles County.

Code by:

- Increasing the minimum County contributions under both the Flexible Benefit and MegaFlex Plans; and
- Modifying the Long Term Disability ("LTD") Health Insurance Plan for Flexible Benefit Plan and MegaFlex employees to provide a "core" disability health insurance benefit at 75 percent of the premium amount and an elective benefit at 100 percent of the premium amount for designated employees disabled on or after January 1, 2007; and
- Replacing the Optional Group Term Life Insurance heretofore available to Flexible Benefit Plan and MegaFlex employees with Optional Group Variable Universal Life Insurance; and increasing the maximum coverage levels applicable to employees who purchase Group Variable Universal Life Insurance and Survivor Income Benefit coverage under the MegaFlex Plan.

RAYMOND G. FORTNER, JR.
County Counsel

By 
HALVOR S. MELOM
Principal Deputy County Counsel
Labor & Employment Division

HSM:asv

Requested: 08-30-06
Revised: 08-30-06

ORDINANCE NO. _____

An ordinance amending Title 5 - Personnel of the Los Angeles County Code, relating to the Flexible Benefit Plan and Nonpensionable Flexible Benefit Plan of Los Angeles County.

The Board of Supervisors of the County of Los Angeles ordains as follows:

SECTION 1. Section 5.27.040 is hereby amended to read as follows:

5.27.040 Contributions.

A. Nonelective Contributions. Except as otherwise provided herein, each month the County shall contribute to the Plan on behalf of each Participant an amount equal to the greater of ~~\$626.00~~ \$678.00 or 10 percent of such Participant's Compensation for the preceding month beginning the ~~2006~~ 2007 Plan Year; provided, however, that no Nonelective Contribution shall be contributed for any Participant if he has not been in a pay status for at least eight hours during the prior month. Nonelective Contributions shall be reflected in County payroll warrants issued on or about the fifteenth day of the month following the month in which the requisite pay status was completed.

...

SECTION 2. Section 5.27.240 is hereby amended to read as follows:

5.27.240 Contributions.

A. Nonelective Contributions.

1. Except as otherwise provided herein, each month the County shall contribute to the Plan on behalf of each Participant an amount equal to the greater of ~~\$852.00~~ \$918.00 beginning the ~~2006~~ 2007 Plan Year or the amount designated in subsection A1a or b below, whichever is applicable:

a. 14.5 percent of the Participant's Compensation for the preceding month if the Participant is a Retirement Plan A, B, C, or D Member, and has completed less than five years of continuous service as of the commencement of the current Plan Year;

...

SECTION 3. Section 5.27.450 is hereby amended to read as follows:

5.27.450 Election and benefit costs.

...

B. Elective Coverage.

1. Each Retirement Plan A, B, C, or D Member may elect LTD coverage equal to his Basic Monthly Compensation multiplied by 40 percent, or 60 percent.

2. Each Retirement Plan E Member who has less than five years of continuous service as of the commencement of the Plan Year for which he is eligible to make an election, may elect LTD coverage equal to his Basic Monthly Compensation multiplied by 40 percent, or 60 percent.

3. Each retirement Plan E Member who has five or more years of continuous service as of the commencement of the Plan Year for which he is eligible to make an election, may elect LTD coverage equal to his Basic Monthly Compensation multiplied by 60 percent.

4. LTD Health Insurance.

a. Each Eligible Employee or Participant may elect a disability health insurance benefit hereinafter referred to as "LTD Health Insurance." LTD Health Insurance shall provide health insurance coverage on a concurrent basis with the payment of benefits under Section 5.27.460. For each Eligible Employee or Participant who elects this option, LTD Health Insurance shall provide the employee with the health insurance coverage to which the Eligible Employee or Participant would otherwise be entitled ~~if not disabled as an active employee~~ pursuant to the rules set forth in the Election Information and shall provide a subsidy toward the payment of that coverage equal to 75 percent of the total premium cost at the time the coverage is provided. The Eligible Employees and Participants receiving this subsidy shall pay the remaining 25 percent of the premium cost. Beginning on January 1, 2005, LTD Health Insurance will be extended to the survivor ~~(including a domestic partner as defined in Section 298.5 of the California Family Code)~~ of an employee who is participating in the LTD Health Insurance protection program ~~immediately prior to death.~~ A "survivor," for this purpose, shall mean a spouse, domestic partner as defined in Section 298.5 of the California Family Code, or dependent child as defined in the Election Information; provided, however, that no person shall receive LTD Health Insurance survivor benefits under this

provision if he or she was not an eligible survivor as of the onset of disability as determined by the Claims Administrator or date of death where death occurs with no preceding claim for disability benefits by the Eligible Employee or Participant under the LTD Plan.

b. For new disabilities beginning on or after January 1, 2007, the LTD Health Insurance Benefits set forth in paragraph (a) above shall be applicable on a nonelective basis for all Participants otherwise eligible for LTD benefits. In addition, Eligible Employees and Participants may elect a 100 percent LTD Health Insurance benefit which shall provide a subsidy toward the payment of the health insurance coverage to which the Participant would otherwise be entitled as an active employee equal to 100 percent of the total premium cost at the time the coverage is provided. The Eligible Employees and Participants electing this subsidy shall pay nothing toward the premium cost at the time the health insurance is actually received. Other rules regarding LTD Health Insurance benefit eligibility shall include the following:

1. For the 2007 Plan Year and for each Plan Year thereafter, any Eligible Employee or Participant who does not elect the optional 100 percent LTD Health Insurance benefit shall be ineligible to make such election for the following Plan Year. The Eligible Employee or Participant must wait two Plan Years before again being eligible to elect this option.

2. In the event a Participant retires and becomes eligible to receive retiree health insurance from LACERA, LTD Health Insurance benefits will cease.

3. An Eligible Employee or Participant who elects to buy the 100 percent LTD Health Insurance benefit while receiving LTD benefits or while in the Waiting Period shall be limited to the 75 percent nonelective LTD Health Insurance benefit and shall not be eligible to receive the 100 percent elective LTD Health Insurance benefit with respect to that same disability until the employee returns to active employment for six months or more.

4. Such other benefit eligibility rules as may be determined necessary by the Chief Administrative Officer and set forth in the Election Information for the prudent administration of the LTD Health Insurance program.

C. Cost. Nonelective. LTD coverage shall be provided at no cost to the affected Participants. Elective LTD coverage, including elective LTD Health Insurance, shall require contributions from the affected Participants as provided for in the Election Information.

...

SECTION 4. Section 5.27.500 is hereby amended to read as follows:

5.27.500 Life insurance.

A. Retirement Plan A, B, C, or D Members.

1. Each Retirement Plan A, B, C, or D Member may elect group term variable universal life insurance in any of the amounts set forth in the Election Information.

B. Retirement Plan E Members.

1. Except as otherwise provided in Section 5.27.510, each Retirement Plan E Member may elect group ~~term~~ variable universal life insurance in any of the amounts set forth in the Election Information.

C. Cost. Group ~~term~~ variable universal life insurance coverage shall require contributions from the County and the affected Participants as set forth in the Election Information.

...

SECTION 5. Section 5.27.510 is hereby amended to read as follows:

5.27.510 Survivor income benefits.

...

B. Election. Each Retirement Plan E Member may elect a survivor benefit equal to:

1. 50 percent of the SIB Participant's SIB Compensation, provided that, with respect to the same Plan Year, he has not elected group ~~term~~ variable universal life insurance exceeding ~~one~~ two times annual Compensation; or

2. 25 percent of the SIB Participant's SIB Compensation, provided that, with respect to the same Plan Year, he has not elected group ~~term~~ variable universal life insurance exceeding ~~three~~ four times annual Compensation.

C. Cost. SIB Coverage shall require contributions from the County and the SIB Participants as provided for in the Election Information.

SECTION 6. Section 5.28.040 is hereby amended to read as follows:

5.28.040 Contributions.

A. Nonelective Contributions. Except as otherwise provided herein, each month the County shall contribute to the Plan on behalf of each Participant an amount equal to the greater of ~~\$626.00~~ \$678.00 or 10 percent of such Participant's Compensation for the preceding month beginning the ~~2006~~ 2007 Plan Year; provided, however, that no Nonelective Contribution shall be contributed for any Participant if he has not been in a pay status for at least eight hours during the prior month. Nonelective Contributions shall be reflected in County payroll warrants issued on or about the fifteenth day of the month following the month in which the requisite pay status was completed.

...

SECTION 7. Section 5.28.240 is hereby amended to read as follows:

5.28.240 Contributions.

A. Nonelective Contributions.

1. Except as otherwise provided herein, each month the County shall contribute to the Plan on behalf of each Participant an amount equal to the greater of ~~\$852.00~~ \$918.00 beginning the ~~2006~~ 2007 Plan Year or the amount designated in subsection A1a or b below, whichever is applicable:

a. 14.5 percent of the Participant's Compensation for the preceding month if the Participant is a Retirement Plan A, B, C, or D Member, and has completed less than five years of continuous service as of the commencement of the current Plan Year;

SECTION 8. Section 5.28.450 is hereby amended to read as follows:

5.28.450 Election and benefit costs.

...

B. Elective Coverage.

1. Each Retirement Plan A, B, C, or D Member may elect LTD coverage equal to his Basic Monthly Compensation multiplied by 40 percent, or 60 percent.

2. Each Retirement Plan E Member who has less than five years of continuous service as of the commencement of the Plan Year for which he is eligible to make an election, may elect LTD coverage equal to his Basic Monthly Compensation multiplied by 40 percent, or 60 percent.

3. Each retirement Plan E Member who has five or more years of continuous service as of the commencement of the Plan Year for which he is eligible to make an election, may elect LTD coverage equal to his Basic Monthly Compensation multiplied by 60 percent.

4. LTD Health Insurance.

a. Each Eligible Employee or Participant may elect a disability health insurance benefit hereinafter referred to as "LTD Health Insurance." LTD Health Insurance shall provide health insurance coverage on a concurrent basis with the payment of benefits under Section 5.28.460. For each Eligible Employee or Participant who elects this option, LTD Health Insurance shall provide the employee with the health insurance coverage to which the Eligible Employee or Participant would otherwise be

entitled if not disabled as an active employee pursuant to the rules set forth in the Election Information and shall provide a subsidy toward the payment of that coverage equal to 75 percent of the total premium cost at the time the coverage is provided. The Eligible Employees and Participants receiving this subsidy shall pay the remaining 25 percent of the premium cost. Effective on January 1, 2005, LTD Health Insurance will be extended to the survivor (including domestic partner as defined in Section 298.5 of the California Family Code) of an employee who is participating in the LTD Health Insurance protection program immediately prior to death. A "survivor," for this purpose, shall mean a spouse, domestic partner as defined in Section 298.5 of the California Family Code, or dependent child as defined in the Election Information; provided, however, that no person shall receive LTD Health Insurance survivor benefits under this provision if he or she was not an eligible survivor as of the onset of disability as determined by the Claims Administrator or date of death where death occurs with no preceding claim for disability benefits by the Eligible Employee or Participant under the LTD Plan.

b. For new disabilities beginning on or after January 1, 2007, the LTD Health Insurance Benefits set forth in paragraph (a) above shall be applicable on a nonelective basis for all Participants otherwise eligible for LTD benefits. In addition, Eligible Employees and Participants may elect a 100 percent LTD Health Insurance benefit which shall provide a subsidy toward the payment of the health insurance coverage to which the Participant would otherwise be entitled as an active employee equal to 100 percent of the total premium cost at the time the coverage is

provided. The Eligible Employees and Participants electing this subsidy shall pay nothing toward the premium cost at the time the health insurance is actually received.

Other rules regarding LTD Health Insurance benefit eligibility shall include the following:

1. For the 2007 Plan Year and for each Plan Year thereafter, any Eligible Employee or Participant who does not elect the optional 100 percent LTD Health Insurance benefit shall be ineligible to make such election for the following Plan Year. The Eligible Employee or Participant must wait two Plan Years before again being eligible to elect this option.

2. In the event a Participant retires and becomes eligible to receive retiree health insurance from LACERA, LTD Health Insurance benefits will cease.

3. An Eligible Employee or Participant who elects to buy the 100 percent LTD Health Insurance benefit while receiving LTD benefits or while in the Waiting Period shall be limited to the 75 percent nonelective LTD Health Insurance benefit and shall not be eligible to receive the 100 percent elective LTD Health Insurance benefit with respect to that same disability until the employee returns to active employment for six months or more.

4. Such other benefit eligibility rules as may be determined necessary by the Chief Administrative Officer and set forth in the Election Information for the prudent administration of the LTD Health Insurance program.

C. Cost. Nonelective. LTD coverage shall be provided at no cost to the affected Participants. Elective LTD coverage, including elective LTD Health Insurance, shall require contributions from the affected Participants as provided for in the Election Information.

...

SECTION 9. Section 5.28.500 is hereby amended to read as follows:

5.28.500 Life insurance.

A. Retirement Plan A, B, C, or D Members.

1. Each Retirement Plan A, B, C, or D Member may elect group ~~term~~ variable universal life insurance in any of the amounts set forth in the Election Information.

B. Retirement Plan E Members.

1. Except as otherwise provided in Section 5.28.510, each Retirement Plan E Member may elect group ~~term~~ variable universal life insurance in any of the amounts set forth in the Election Information.

C. Cost. Group ~~term~~ variable universal life insurance coverage shall require contributions from the County and the affected Participants as set forth in the Election Information.

SECTION 10. Section 5.28.510 is hereby amended to read as follows:

5.28.510 Survivor income benefits.

...

B. Election. Each Retirement Plan E Member may elect a survivor benefit equal to:

1. 50 percent of the SIB Participant's SIB Compensation, provided that, with respect to the same Plan Year, he has not elected group term variable universal life insurance exceeding ~~one~~ two times annual Compensation; or

2. 25 percent of the SIB Participant's SIB Compensation, provided that, with respect to the same Plan Year, he has not elected group term variable universal life insurance exceeding ~~three~~ four times annual Compensation.

C. Cost. SIB Coverage shall require contributions from the County and the SIB Participants as provided for in the Election Information.

...

SECTION 11. Pursuant to Government Code Section 25123(f), this ordinance shall take effect immediately. If this ordinance becomes effective prior to December 1, 2006, the provisions of Sections 1, 2, 6, and 7 shall be construed and applied as if they were effective and operative on and after December 1, 2006. The provisions of Sections 3, 4, 5, 8, 9, 10 shall be effective and operative on and after January 1, 2007.

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